WORLD BANK GROUP’S RESPONSE TO THE GLOBAL ECONOMIC CRISIS: PHASE II
AND
DRAFT WORLD BANK GROUP (WBG) MANAGEMENT COMMENTS

Report to the Board of Executive Directors from the
Committee on Development Effectiveness *

Meeting of December 16, 2011

The Committee on Development Effectiveness (CODE) considered the IEG report entitled World Bank Group’s Response to the Global Economic Crisis: Phase II (CODE2011-0061) and the Draft World Bank Group Management Comments (CODE2011-0064). The meeting was a continuation of the interaction started on September 27, 2010, when CODE discussed the World Bank Group’s Response to the Global Economic Crisis: Phase I (CODE2010-0057).

The Committee welcomed the IEG report and the opportunity to discuss how the WBG could improve an already good crisis response in order to be more responsive in the future. Members highlighted the importance of drawing lessons from past experience, continuing to properly position the WBG’s response within the development context, and make better informed decisions during future crises. Members underlined that, considering the unprecedented severity and the uncertainties of the global economic crisis, the WBG responded well, with the appropriate speed, size and composition of lending, in line with the requests by the international community and in the spirit of partnership and coordination with other stakeholders, taking into account the principles of effective harmonization and the country priorities. The Committee also emphasized the difficulties in predicting the impact of the crisis and reconciling it with the need to respond rapidly. However, Members acknowledged that there is room to enhance the WBG future crisis preparedness, supporting the establishment of a roadmap for crisis response, and increasing the use of innovative financial instruments – including in IDA countries. Members also acknowledged the need to strengthen crisis response including building better social protection systems, and bolster country capacity and knowledge.

IEG underlined that the report builds on and reaffirms many of the finding of Phase I. The report addresses questions raised in the discussion of Phase I regarding lending in the financial, fiscal and social protection areas, and adequacy of lending instruments. Its findings indicate that the WBG capacity to respond to crises could be further improved by developing a strategic roadmap that explicitly acknowledges the diversity of clients’ needs and the role of other IFIs, and that includes a review of financial instruments to enable more effective crisis response and help preserve headroom. IEG recognized that measures in this direction are already being undertaken by the WBG – including the consideration of new IBRD instruments, IFC’s ongoing refinement of its stress-test methodology as part of its continued efforts to enhance risk management and the institutionalization of its successful initiatives to respond to crises, and MIGA’s ongoing expansion and diversification of its business plan.

Management underlined the unprecedented challenge as the crisis unfolded. The response was appropriate to the broadly-based nature of the crisis and possible spillover effects from systemic countries; reflected country demand and capacity; the quality of policies and institutions; and it was consistent with WBG mission, and ensured equitable treatment across countries. Management also pointed out that many countries entered the crisis in a good fiscal condition, with strong anti-poverty strategies and policy frameworks, and sought support to sustain expenditures and vital infrastructure in priorities relevant for sustainable development, while protecting the poor and vulnerable from an external shock. Shareholders (donor and client alike) appreciated the speed, the size, and the composition of the response, and the spirit of partnership with which it was undertaken. Shareholders and the Board set the parameters of and guide Management’s response. That joint effort helped restore confidence in developing countries, paving the way for developing country growth to return to pre-crisis levels and was crucial in restoring the World Bank’s financial capacity in the post crisis period. Management appreciated the opportunity to engage further with the Board to improve the WBG capacity to respond to crises, and several initiatives are underway related to crisis response and preparedness going forward.

* This report is not an approved record.