

The World Bank in times of crisis: too many commitments and few disbursements

Draft - October, 2009

By María José Romero (IFIs Latin American Monitor, ITeM)

Executive summary

During the fiscal year from 1 July 2008 to 30 June 2009, the World Bank's activity was defined mainly by the global financial and economic crisis and the effects it caused in low and middle income countries. The official discourse highlights the range of initiatives implemented by the institution and the record amounts pledged to meet the crisis. However, the Annual Report 2009 figures reveal a significant difference between the committed amounts and those actually disbursed, which challenges the Bank's activity in response to the crisis.

While the increased IBRD commitments are 144% higher than in the previous fiscal year, the increase in disbursements was only 77%. But more striking still is that IDA commitments have increased by 25%, but its actual disbursement was less than 1% compared to the previous year.

Two facts stand out in the latest Bank report. The first: Latin America and the Caribbean was the region prioritized by the institution, with 200% of commitments in the previous year and 30% of total Bank financing through the IBRD and IDA in 2009. The second: the increased proportion of Development Policy Loans (DPLs) in relation to total IBRD commitments, from 29.5% to 47%. This instrument has been used since 2004 and is an updated form of the structural adjustment policies of the 80s and 90s.

These data reinforce the need for an in-depth review of the Bank's current policy conditionalities – with an emphasis on Latin America – which social organizations have questioned for decades.

Introduction

In the context of the global economic and financial crisis the Bretton Woods financial institutions – the IMF and the World Bank – have increased the amount of their operations. The decisions of the G20 summit in Washington (November 2008) and London (April 2009) legitimized the activity of these institutions in response to the crisis, with the promise of additional resources.

During the last fiscal year from 1 July 2008 to 30 June 2009, the Bank's activity was defined mainly by the global financial and economic crisis and the effects it caused in low and middle income countries. This emphasis is reflected in the figures committed by the institution and the range of implemented initiatives. However, it is necessary to look at what is behind the announced figures to see if there are really significant additional disbursements.

Given the history of the Bank's conditionalities it is also necessary to take into account the Bank's current policy in this area. Several studies by civil society organizations have highlighted the detrimental effects of the recommended policies that followed the Washington Consensus Decalogue, and the loss of sovereignty that developing countries experimented because of them. Today, the official discourse of both the IMF and the WB points to the flexibility and the reduction of conditionalities attached to their operations. However, as evidenced by recent studies conducted by social organizations, "there has been some limited progress, but the process is slow and gradual."¹

This paper is divided in three sections. First, we present a brief analysis of the effects of the crisis at the global level and for Latin America in particular. Second, based on the figures from the Bank itself, we present an analysis of their business operations by type, region and sector, with regard to the International Bank for Reconstruction and Development (IBRD), which provides financing to middle income countries and creditworthy poor countries, and to the International Development Association (IDA), which facilitates grants and interest free loans to poor countries. Finally, we raise some challenges in terms of monitoring the Bank's activities and policies.

1. The many crises as a backdrop

In September 2008 with the collapse of Lehman Brothers investment agency a financial crisis erupted that soon spread throughout the world. According to the last World Bank's report *Global Development Finance*, published in June 2009, "developing countries are expected to grow by only 1.2% this year, after 8.1% growth in 2007 and 5.9% growth in 2008. When China and India are excluded, GDP in the remaining developing countries is projected to fall by 1.6%, causing continued job losses and throwing more people into poverty. Global growth is also expected to be negative, with an expected 2.9% contraction of global GDP in 2009."²

Based on these estimates the World Bank itself predicted that poverty would increase by 53 million people worldwide. In an article for the 2009 *Social Watch Report*, Aldo Caliari, from the Center of Concern, asserts that "Even this figure may be optimistic as it is based on the World Bank's widely questioned definition of poverty and is likely to understate the real number of the poor (...) The effects of the crisis are also likely to lead to increasing inequality. The gap between richer and poorer households that has been widening since the 1990s will get bigger. The income gap between the top and bottom 10% of wage earners had increased in 70% of a sample of countries investigated in an ILO report published [in 2008]."³

The latest IMF forecasts are not very auspicious. In the chapter "What's the Damage? Medium-Term Output Dynamics after Financial Crises," of the *World Economic Outlook 2009*, the institution argues that "For the average country, the output level is still around 10 percent below its pre-crisis trend seven years after the crisis." The report notes that banking

¹ Eurodad, *From London to Pittsburgh: assessing G20 action for developing countries* (September 2009), www.eurodad.org/whatsnew/articles.aspx?id=3820

² go.worldbank.org/ITBBVD3SA0

³ Aldo Caliari, "A human rights-based response to the financial and economic crisis" in *Social Watch Report 2009 - Making finances work: People first* (Montevideo: Social Watch, 2009).

crises have a direct impact on growth in subsequent years; and although it may recover, it means less jobs, less investment and lower productivity, which in turn contribute to sustained losses.⁴

Shortly after the outbreak of the crisis in the financial heart of the United States and then Europe, its global dimension soon became clear. However, not all regions and all countries were affected in the same way. As stated by Roberto Bissio, Social Watch executive secretary, "The speed at which countries get affected by the tsunami is related with how its economy is linked to those at the epicenter." Eastern European countries were first to suffer the effects and then the Latin American countries with strong ties to the United States. Mexico and Central American countries are a clear example of this.

With this overview as a backdrop, developing countries suffer from a crisis they did not generate, and which in fact is in addition to a situation of almost permanent crisis that many poor countries must face and to the food, energy and climate crises that have worsened in recent years.

In this context, governments from both developed and developing countries, seek to stimulate their economies with countercyclical measures and policies to mitigate the consequences and contribute to recovery. However, the difference between them is the availability of resources to implement stimulus packages, in terms of fiscal space. International financial institutions play a vital role in this regard as many governments are feeling the effects of the drastic drop in foreign direct investment (FDI),⁵ a significant reduction of aid flows from donor countries and the fall in income from remittances, even the return of migrants to their countries of origin,⁶ and the fall in public revenue thus increasing the fiscal deficit.⁷

In this way, the resources the IMF and the World Bank will actually disburse and the characteristics of their loans will be crucial to mitigate the consequences or deepen the causes of the crisis on local populations.

2. Behind the numbers of the World Bank in the year of the crisis

2.1 Commitments vs. Disbursements

According to the Annual Report 2009, during the fiscal year that ended 30 June 2009, the amount of IBRD and IDA commitments reached almost \$ 47 billion, compared to \$ 25 billion

⁴ www.imf.org/external/pubs/ft/weo/2009/02/index.htm

⁵ FDI inflows – the largest component of international capital flows to the developing world – are also projected to decline by 30% to \$385 billion in 2009 (World Bank Global Development Finance, 2009).

⁶ According to estimates produced by the Inter-American Development Bank, Latin America and Caribbean, the region with the highest number of migrants in the United States, will receive some \$ 62 billion in remittances from emigrants in 2009, down 11% compared to 2008.

⁷ In Europe and Central Asia average fiscal positions across the region are expected to deteriorate further in 2009, to an average deficit of 5.9% of GDP, compared to surpluses of 1.6% in 2007 and 0.7% in 2008. While in Latin America and the Caribbean including the recession-induced impact on tax revenues, automatic stabilizers, and other factors, the region's fiscal balance is projected to deteriorate by 2.7% of GDP in 2009. (World Bank Global Development Finance, 2009).

last year. In turn, if commitments from the International Finance Corporation (IFC) and the Multilateral Investment Guarantee Agency (MIGA) are taken into account, the World Bank Group committed \$ 58.8 billion in 2009, compared with \$ 38.2 billion in 2008. It is expected that these figures remain unchanged for the next two years. Other Multilateral Development Banks (MDBs) also increased their loans. For example, in 2008 the Inter-American Development Bank (IADB) approved loans and guarantees for \$ 11.08 billion, representing an increase of 27%, compared with \$ 8.73 billion approved in 2007.⁸ However, as stated by Eurodad, “these lending increases do not amount to ‘at least \$100 billion of additional lending by the MDBs, including to Low-Income Countries, to a total of around \$300 billion over the next three years’, as G20 leaders promised in April.”⁹

World Bank put forward five initiatives to support the public sector and eight for the private sector, according to three priority areas: "safety net programs to protect the most vulnerable; maintaining investments in infrastructure; support for small and medium-size enterprises and microfinance."¹⁰

These efforts resulted in record levels of commitments which the Bank channeled through the International Bank for Reconstruction and Development (IBRD) which provides financing to middle income countries and creditworthy poor countries, to the International Development Association (IDA), which facilitates grants and interest free loans to the 79 poorest countries in the world and the International Finance Corporation (IFC), which provides financing to the private sector.

Table 1: Operational summary – Fiscal Year 2009

	2008	2009	% Change 08-09
IBRD			
Commitments	13,468	32,911	144.4
DPL/Commitments (%)	29.5	47.2	
Gross disbursements	10,490	18,564	77.0
DPL/Gross Disbursements (%)	33.2	49.2	
Commitments/Disbursements (%)	77.9	56.4	
IDA			
Commitments	11,235	14,041 ^a	25.0
DPL/Commitments (%)	23.8	20.1	
Gross disbursements	9,160	9,219	0.6
DPL/Gross Disbursements (%)	30.7	20.3	
Commitments/Disbursements (%)	81.5	65.7	

(^a) Includes a HIPC grant of \$45.5 million for Côte d’Ivoire.

As Table 1 shows, IBRD commitments totaled \$ 32.9 billion, which compared with \$ 13.47 billion of the previous fiscal year represents a record increase of 144%. IDA's commitments, meanwhile, totaled \$ 14 billion, representing an increase of 25% over the \$ 11.2 billion of fiscal year 2008. This last amount includes \$ 11.4 billion in loans and \$ 2.6 billion in grants designed to support 177 operations.

⁸ www.iadb.org/ar/2008/index.cfm?lang=en

⁹ Eurodad, *From London to Pittsburgh*.

¹⁰ www.worldbank.org/financialcrisis/bankinitiatives.htm

However, the figures of the Bank's last annual report reveal some surprising data in terms of amounts committed and actually disbursed. Beyond the characteristics of financing instruments used by the Bank – investment loans (Specific Investment Loans, SILs) and loans for financing development policies (Development Policy Loans, DPLs) – in terms of objectives and deadlines for disbursement of each one of them,¹¹ in times of global financial and economic crisis, developing countries require more actual disbursement of resources than the approval of commitments, which are only promises until they are made effective.

Also shown in Table 1 is the record increase in commitments approved by the IBRD (144%), which is not matched by a similar increase in disbursements. The latter only increased by 77%. Meanwhile, IDA committed a 25% increase in resources, but only paid less than 1%. These data turn on the alarm regarding the Bank's activities in response to the crisis and the effective increase in resources for developing countries.

Table 1 also refers to the type of instrument used by the Bank to channel its resources. The World Bank provides funds for two types of operations: investment loans (SILs) and loans for financing development policies (DPLs).

SILs include loans, credits and grants for projects aimed at acquiring goods, building infrastructure or contracting services. Funds are disbursed in foreign or national currency against specific expenditures related to the investment project, including equipment, materials, civil works, technical and consulting services, studies and additional recurrent costs already identified.

DPLs, in turn, provide financial assistance for the implementation of a medium-term program of policy reforms. Funds are disbursed in one or more stages, after an evaluation of the goals for the previous installment, taking as reference a set of indicators such as measures for institutional or policy reform, or indicators of results showing progress in implementing a national program of reforms. This instrument is used since 2004 and is an updated version of the structural adjustment policies of the 80s and 90s, as it maintains its level of conditioning through the category "prior actions or triggers."¹²

As civil society organizations have pointed out for many years, Bank conditionalities have resulted in the implementation of harmful policies – following the Washington Consensus Decalogue – and a loss of sovereignty for the recipient countries. Despite this, during the last fiscal year the proportion of DPLs in IBRD total disbursements rose from 33% to 49%, while in relation to total commitments this percentage increased from 29.5% to 47%.

For the considerations presented above in terms of types of instruments and funding by region, we believe it is important to analyze the Development Policy Loans approved for Latin America in the last fiscal year. The Bank's history in the region, in terms of policy

¹¹ According to WB officials "SILs take time for project to disburse, most projects take several years to be implemented. (...) while under DPLs large amounts of funds are disbursed a few months after the loan is approved."

¹² As the WB stated, "prior actions are policy and institutional actions that are deemed critical to achieving the objectives of the program supported by a development policy operation and that a country agrees to take before the Board approves a loan (credit or grant)."

conditioning, makes this consideration even more important and leaves open this chapter for further study that may include other regions of the planet, in order to analyze the institution's current policy of conditionalities.

In the last fiscal year, 20 DPLs with 13 countries of Latin America and the Caribbean were approved for \$ 7 billion. If we disaggregate these commitments by sector, we find that 10 of them were approved for Public Administration, Law, and Justice, and only one was exclusively for Health and other social services. Among the loans for Agriculture, fishing, and forestry (2 in 22), it is worth noting the loan to Brazil for \$ 1.3 billion destined for the National Economic Development Bank (BNDES) in the framework of the Sustainable Environmental Management (SEM).¹³

2.2 Activity by region: the preference for Latin America

The World Bank intervention to address the effects of the crisis had a strong regional emphasis. Latin America and the Caribbean was the region that most benefited from the Bank's commitments and disbursements, with 30% of total Bank financing through the IBRD and IDA. Most countries in the region – middle-income countries – had to deal with the external crisis, after five years of robust economic growth (5.3% average for the region). Thus, the crisis was to the Bank a clear opportunity to return to the region as a "necessary" funding source. According to the Bank, Brazil, Mexico and Argentina were the main borrowers in the region.

Table 2: New commitments by region – Fiscal Year 2008-2009 (millions of dollars)

Region	Total Fiscal 2008			Total Fiscal 2009			% Change 08-09
	New commitments			New commitments			
	IBRD	IDA	Total	IBRD	IDA	Total	
Latin America and the Caribbean	4,353	307	4,660	13,829	202	14,031	201
Middle East and North Africa	1,203	267	1,470	1,551	172	1,723	17
Europe and Central Asia	3,714	457	4,171	8,978	384	9,362	124
East Asia and Pacific	2,677	1,791	4,468	6,905	1,247	8,152	82
South Asia	1,491	2,756	4,247	1,286	4,148	5,434	28
Africa	30	5,657	5,687	362	7,887 ^a	8,249	45

(^a) Includes a HIPC grant of \$45.5 million for Côte d'Ivoire.

Table 2 shows the figures of new World Bank commitments broken down by region. It also shows a clear preference for Latin America and the Caribbean. New commitments approved by the Bank for the region increased by 201% compared to 2008, while the resources approved for Middle East and North Africa increased by only 17%.

One of the initiatives implemented in the region, and emphasized by the Bank, was the credit line known as Development Policy Loans with "deferred drawdown option". Eight loans for five countries in Latin America and the Caribbean were approved under this procedure: Colombia, Costa Rica, Guatemala, Peru and Uruguay. According to the Bank, "the

¹³ For a detailed analysis of this loan see: Vince McElhinny, "World Bank Environmental Development Policy Loan to BNDES: Moving Money or Mainstreaming Environment?" in BICECA Newsletter, August, 2009. Bank Information Center: www.bicusa.org/admin/Document.101536.aspx

new financing instrument reflects the Bank's commitment to assisting governments in providing positive market signals by creating a preventive source of financing." However, these loans meet the characteristics identified for the DPLs.

Speaking of resources actually disbursed (Table 3), Latin American and Caribbean countries were also the most favoured, with a 139% increase over fiscal year 2008, while Africa surprisingly received 9% less.

Table 3: Disbursements by region – Fiscal Year 2008-2009 (millions of dollars)

Region	Total Fiscal 2008			Total Fiscal 2009			% Change 08-09
	Disbursements			Disbursements			
	IBRD	IDA	Total	IBRD	IDA	Total	
Latin America and the Caribbean	3,210	159	3,369	7,864	180	8,044	139
Middle East and North Africa	966	137	1,103	1,216	183	1,399	27
Europe and Central Asia	2,696	527	3,223	4,887	493	5,380	67
East Asia and Pacific	2,401	1,111	3,512	3,275	1,254	4,529	29
South Asia	1,175	2,379	3,554	1,202	2,792	3,994	12
Africa	42	4,848	4,890	120	4,317	4,437	-9
Total	10,490	9,161	19,651	18,564	9,219	27,783	41

The gap between commitments and disbursements from the IBRD and IDA by region are due to the classification of countries used by the Bank (WB eligibility). In Latin America and the Caribbean, Honduras, Nicaragua, Guyana and Haiti, because they are Heavily Indebted Poor Countries, (HIPC), are only eligible for IDA resources; Bolivia is eligible for both IDA and IBRD resources; while the rest of the region (middle-income countries), are eligible for IBRD resources. Africa, however, is the world region that comprises the largest number of recipients of IDA resources.

Table 4: New commitments and Disbursements by region – Fiscal Year 2009 (millions of dollars)

Region	New commitments			Disbursements			% Total NC/Total Disb.
	IBRD	IDA	Total	IBRD	IDA	Total	
Latin America and the Caribbean	13,829	202	14,031	7,864	180	8,044	57
Middle East and North Africa	1,551	172	1,723	1,216	183	1,399	81
Europe and Central Asia	8,978	384	9,362	4,887	493	5,380	57
East Asia and Pacific	6,905	1,247	8,152	3,275	1,254	4,529	56
South Asia	1,286	4,148	5,434	1,202	2,792	3,994	73
Africa	362	7,887 ^a	8,249	120	4,317	4,437	54
Total	32,911	14,040	46,951	18,564	9,219	27,783	59

^(a) Includes a HIPC grant of \$45.5 million for Côte d'Ivoire.

Meanwhile, Table 4 presents the difference between promises and reality (commitments and disbursements) by region. In the last fiscal year only the Middle East and North Africa received an amount close to the committed figure, 81% of resources. Except for South Asia, the remaining regions received amounts for just the payment of only between 54% and 59% of the committed. This may be explained by the characteristics of the instrument used by the Bank in each region, but no doubt these figures present important differences to be a crisis year.

2.3 The activity sectors: infrastructure and social services

According to official figures, in the last fiscal year the World Bank Group allocated \$ 20.7 billion to finance infrastructure projects (including energy and mining, transportation, water, sanitation, and flood protection, and information and communication technology), while support for social safety nets and other social programs amounted to \$ 4.5 billion.¹⁴ This implies that Bank's overall activity spent more than four times the resources of social programs to finance infrastructure.

Table 5: Total IBRD-IDA lending by sector – Fiscal Year 2008-2009

Sector	Share of total lending – 2008	Share of total lending – 2009
Agriculture, Fishing, and Forestry	6	7
Education	8	7
Energy and Mining	17	13
Finance	6	9
Health and Other Social Services	7	13
Industry and Trade	6	6
Information and Communication	<1	1
Law and Justice and Public Administration	21	20
Transportation	19	13
Water, Sanitation, and Flood Protection	10	9

Table 5 compares the proportion of financing for each sector in total IBRD + IDA commitments for over the past two fiscal years. From this it follows that in 2008 the commitments for infrastructure represented an overwhelming 47% of the total, while in 2009 this figure dropped to 36%. Conversely, it is noteworthy that in education, health and other social services, the proportion ranged from 15% to 20% of total IBRD + IDA commitments.

Given the Bank's preference for Latin America and the Caribbean, we consider it necessary to present data disaggregated by sector for this region. Table 6 presents the figures committed in 2008 and 2009 by sector and the percentage change between each exercise.

Table 6: World Bank lending in Latin America and the Caribbean by sector – Fiscal Year 2008-2009 (millions of dollars)

Sector	2008	Share of lending	2009	Share of lending
Agriculture, Fishing, and Forestry	333.5	7	1,329.20	10
Education	525.3	11	710.6	5
Energy and Mining	266.8	6	502.3	4
Finance	249.5	5	1,921.00	14
Health and Other Social Services	436.7	9	3,190.50	23
Industry and Trade	462	10	696.20	5
Information and Communication	0	0	173.90	1
Law and Justice and Public Administration	851.40	18	3,137.40	22
Transportation	1,083.40	24	204.30	1
Water, Sanitation, and Flood Protection	451.3	10	2,165.70	15
Sector total	4,660.00	100	14,031.00	100

¹⁴ go.worldbank.org/O4729N4MC0

Based on Table 6, it can be said that overall financing by sector for Latin America and the Caribbean is in line with the financing by sector for the total IBRD and IDA, regarding decreases and increases identified for infrastructure and social services. In infrastructure, the proportion of commitments adopted in 2008 represented 40%, while in 2009 it decreased to 21%. It is also important to note the sharp increase in commitments approved in the region for health and other social services. This fact has been publicly emphasized by the Bank, and matches the support that the institution has provided for conditional income transfer programs to families from the poorest sectors of the population, such as: *Bolsa Familia* (Family Basket) in Brazil, *Oportunidades* (Opportunities) in Mexico and similar plans developed in Colombia, El Salvador, Jamaica and Panama.

3. Final remarks

Data from the Bank's latest annual report deserve special consideration because it is a fiscal year marked by the global economic and financial crisis and its impacts on developing countries. For this reason, the gap between commitments and disbursements called attention well beyond the possible explanations that the institution may put forward in terms of instruments used and planned dates for disbursement.

The privilege of Latin America and the Caribbean opposite Africa and other regions of the world also call for a reflection. The Bank, with legitimacy problems among Latin Americans, has found in the global crisis an opportunity for significant action in the region.

In terms of instruments used by the institution, increasing DPLs commitments and disbursements is also a fact to be highlighted. The unavailability of timely and comprehensive data on the Bank conditionalities makes further analysis of the current policies difficult. However, we would like to revisit this point for further analysis, in order to assess the real impact of the institution's resources in developing countries.