



THE WORLD BANK

World Bank Support to Financial Crisis Preparedness

The current global financial crisis is the most serious of the last several decades. Second-round effects likely will be felt by many middle and lower income countries, generating losses for financial institutions and having negative consequences for fiscal positions and real economic activity. Few countries will be immune. Financial sector authorities everywhere need to be on a heightened state of alert.

The World Bank offers support to financial sector authorities to help deal with emerging problems in financial institutions and financial markets, and to mitigate the risk of systemic crisis. The Bank provides technical assistance to strengthen the authorities' contingency plans for dealing with distress, and to test the authorities' preparedness through the use of simulation exercises. The Bank promotes the regular use of simulation exercises as a means to identify weaknesses and gaps in contingency plans and the authorities' response capacity, to ensure plans remain abreast of market developments, and to ensure that current incumbents to senior decision-making positions are familiar with those plans and the tools at their disposal.

The Bank's technical assistance covers policies and procedures, and institutional and legal capacity for:

- Supervisory prompt corrective action , including promoting private sector solutions
- Emergency liquidity assistance
- Financial institution failure resolution
- Depositor and investor protection
- Intra- and interagency coordination and related protocols, and formal contingency planning

The Bank arranges regional workshops which review the lessons of experience in dealing with financial distress, discuss the use of contingency plans to enhance preparedness, demonstrate the use of simulation exercises as a means to test response capacity, and provide a forum for dialogue around these topics.

The Bank provides technical assistance to strengthen contingency plans and response capacity, covering the elements described above. This technical assistance is delivered by Bank staff, former senior regulators and supervisors, and other veterans of prior crises in their own countries. The interim output is one or more reports which highlight strengths, weaknesses and gaps in response capacity, and identifies actions to be taken. The final outputs support the authorities in implementing the indicated actions. This assistance generally can be delivered within two or three missions in country.

In addition, the Bank arranges the design and delivery of crisis simulation exercises. The product simulates a series of shocks requiring actions and decisions by the authorities. Prior work to strengthen contingency plans, as described above, generally should precede a simulation exercise. Simulations can vary in format, from a meeting spanning a few hours in which the authorities' response to specific scenarios can be articulated and evaluated, to a multi-day interactive exercise delivered via simulated email and telephone calls. Simulations are most useful when senior decision-makers in all relevant authorities participate (supervisory agencies, central bank, deposit insurer, finance ministry), but can be undertaken by a single agency. Simulations highlight weaknesses in laws, policies, procedures, and contingency plans in the context of actual conditions and vulnerabilities. The main output is a report evaluating the authorities' response to shocks and offering recommendations for improvements, which can be presented by means of a seminar among the participating authorities. Simulation require three to five missions in country.

The Bank also can seek to arrange grant funding for this technical assistance, including through the FIRST Initiative, a multi-donor financial sector technical assistance trust fund managed by the Bank.

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