OFFICIAL USE ONLY

The Unfolding COVID-19 Crisis and its Implications for IDA

Final Text for Disclosure

Development Finance Corporate IDA and IBRD (DFCII)

July 29, 2020

ACRONYMS AND ABBREVIATIONS

Fiscal year (FY) = July 1 to June 30

AFC	Asian Financial Crisis
AFD	Agence Francaise de Développement
AFR	Africa Region
ANI	Adjusted Net Income
BFP	Bank Facilitated Procurement
Cat DDO	Catastrophe Deferred Drawdown Option
CDD	Community-Driven Development
CERCs	Contingent Emergency Response Components
COMESA	Common Market for Eastern and Southern Africa
CRW	Crisis Response Window
DPF	Development Policy Financing
DPT	Diphtheria, Pertussis, and Tetanus
DRC	Democratic Republic of Congo
DSA	Debt Sustainability Analysis
DSC	Deployable Strategic Capital
DSSI	Debt Service Suspension Initiative
FCS	Fragile and Conflict-affected Situations
FCV	Fragility, Conflict and Violence
FIFs	Financial Intermediary Funds
FTCF	Fast Track COVID-19 Facility
GDP	Gross Domestic Product
GEMS	Geo-Enabling initiative for Monitoring and Supervision
GFC	Global Financial Crisis
GTFP	Global Trade Finance Platform
HEPRTF	Health Emergency Preparedness and Response Multi-Donor Trust Fund
IBRD	International Bank for Reconstruction and Development
IDA	International Development Association
IDA FCS	Fragile and Conflict-affected IDA Countries
IDA19	Nineteenth Replenishment of IDA
IEG	Independent Evaluation Group
IFC	International Finance Corporation
IMF	International Monetary Fund
LMICs	Lower Middle-income Countries
M&E	Monitoring & Evaluation
MICs	Middle Income Countries
MPA	Multiphase Programmatic Approach
MSME	Micro, Small, and Medium Enterprises
NGOs	Non-Governmental Organizations
PBA	Performance-Based Allocation
PEF	Pandemic Emergency Financing Facility
PHEIC	Public Health Emergency of International Concern
PPE	Personal Protective Equipment
PSW	Private Sector Window
RSE	Real Sector Envelope
SDFP	Sustainable Development Finance Policy
SDGs	Sustainable Development Goals
SMEs	Small and Medium Enterprises
SPRP	Strategic Preparedness and Response Program
SUF	Scale-up Facility
SUW	Scale-up Window
UN	United Nations
UNICEF	United Nations Children's Fund
VAT	Value-added Tax
WASH	Water, Sanitation, and Hygiene
WBG	World Bank Group
WCS	Working Capital Solutions Platform
WFP	World Food Programme
WHO	World Health Organization

TABLE OF CONTENTS

LIST OF FIGURES AND BOXES

Figures

Boxes

Tables

EXECUTIVE SUMMARY

i. **The magnitude of the COVID-19 crisis is unprecedented in the history of the International Development Association (IDA).** The pandemic is still escalating in IDA countries, likely at faster rates than reported. On top of the health crisis, IDA countries face the sharpest decline in growth since the 1960s—a deep recession that will leave lasting scars. The poverty rate in IDA countries is rising for the first time in more than 20 years. Gains in poverty reduction in IDA18 have been lost. Maternal and child mortality is set to rise. Nearly all children are out of school, with concern that many may not return. Decades of hard-fought gains on gender equality are at risk. Inequality is rising, and the crisis is hitting the most vulnerable the hardest. Government revenues are falling beyond the fall in output. Fragility, Conflict and Violence (FCV) risks are rising, and a food crisis is looming. The confluence of these factors creates a perfect storm for IDA countries, many of which have weak institutional capacity. Even before the pandemic, fiscal space in most IDA countries was severely constrained, and debt vulnerabilities were high. Now, the ability of IDA clients to mitigate these impacts is limited. The crisis is still unfolding, and much remains uncertain, but it is clear that IDA countries are quickly moving *backwards* on the path toward the World Bank Group (WBG) Twin Goals and the Sustainable Development Goals (SDGs). Furthermore, risks are heavily tilted to the downside, suggesting that the situation in IDA countries may worsen still.

ii. **IDA's response in recent months has demonstrated scale, speed, and selectivity**. Despite the practical challenges and constraints of working amidst a global pandemic, IDA has mobilized massive support for its clients. The Fast Track COVID-19 Facility (FTCF) which focuses primarily on emergency health support was endorsed by Executive Directors on March 17, 2020. Client demand has been significant, and as of June 12, 2020, IDA has provided US$2.0 billion across 67 countries for 86 operations. Beyond health-related interventions, IDA expects to deliver 24 operations in Q4 of FY20 to support economic and social responses in 21 countries amounting to US$3 billion, which is primarily funded through reprioritizations of pipelines and portfolios. IDA is also leveraging collaborations with other actors to marshal resources and limit the fragmentation of support to clients. While the scale of the crisis is beyond the response capacity of any single institution, IDA continues to demonstrate exceptional value for money and is uniquely well-positioned to support IDA countries in the fight against COVID-19.

iii. **The Nineteenth Replenishment of IDA (IDA19) was agreed prior to this crisis unfolding.** Its ambitious agenda remains highly relevant. But we start IDA19 farther from our goals and in a more complex, constrained, and challenging environment than we expected only months ago. The needs of IDA countries are greater than before and will likely grow further still. Meanwhile, early response to the crisis has necessarily redirected IDA resources from programs otherwise intended to advance the longer-term development agenda toward programs that protect existing development gains. Grounded in the *WBG COVID-19 Crisis Response Approach Paper*,[1] with its three stages (*relief; restructuring; and resilient recovery*) and four thematic pillars (*saving lives; protecting the poor and vulnerable; ensuring sustainable growth and job creation; and strengthening policies, institutions, and investments for rebuilding better)*, IDA can scale up

[1] *WBG COVID19 Crisis Response Approach Paper,* SecM2020-0140,IDA/SecM2020-0167,IFC/SecM2020-0074,MIGA/SecM2020-0054, June 8, 2020, (CONFIDENTIAL).

impact and help to bring countries back to the development path agreed in Stockholm, which is a shared interest of all countries. To make that happen though, IDA19 requires adequate resources to support clients with concessional financing.

iv. **This Paper aims to update IDA Participants on the unfolding COVID-19 crisis as it relates to IDA countries and to IDA**. *Section 1* provides an update on the emerging impacts of COVID-19 in IDA countries, recognizing uncertainties and downside risks. *Section 2* outlines the steps that IDA has taken so far, its unique role and demonstrated value for money. *Section 3* indicates the challenges ahead and possible future directions to support IDA countries through the crisis, including early indications of additional demand for IDA resources, and how this demand may be only partially addressed through reprioritization or adjustments to financial planning. At this stage, Management seeks guidance from IDA Participants on whether and how IDA should respond to these emerging impacts. Management will continue to update IDA Participants as the COVID-19 crisis unfolds.

I. COVID-19 IMPACTS ON *GROWTH, PEOPLE AND RESILIENCE* IN IDA COUNTRIES AND ON THE 2030 AGENDA

1. **IDA countries are moving backwards on all three dimensions of the IDA19 theme, "*Toward 2030: Growth, People, Resilience*".** The world faces a crisis like no other—multiple major, simultaneous shocks that are reverberating around the world and which will have deep and lasting effects for IDA countries. Much remains uncertain, with strong downside risks. This crisis was not foreseen when IDA Participants met in Stockholm in December 2019 to finalize the ambitious IDA19 Replenishment. Nonetheless, the IDA19 theme is relevant, even prescient—urging focus on *growth, people, and resilience*. In all three dimensions, the crisis has already set IDA countries back, and in ways that have long-term adverse effects on poverty, growth, growth potential, human capital, governance, inequality, and societal resilience. This section outlines the emerging impacts, risks and uncertainties facing IDA countries as the COVID-19 crisis unfolds, for growth, people and resilience in turn.

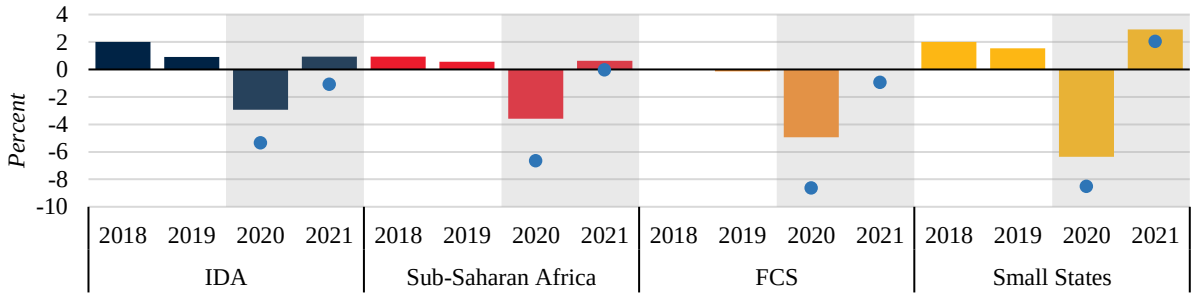
A. Implications for Growth

2. **IDA countries face an unprecedented recession and strong downside risks.** Pandemic containment measures around the world have weighed heavily on economic activity in IDA countries since February 2020. This has been further affected by sharply reduced external demand, including a collapse in global trade and tourism, falling commodity prices, and an expected fall in remittance inflows—an important source of foreign financing in many IDA countries. The effect of these shocks has been exacerbated by heightened risk aversion in financial markets, which has contributed to markedly weaker currencies and caused sharply higher sovereign borrowing costs. The slump in activity in major world economies, along with lower commodity prices, is also likely to reduce foreign direct investment in many IDA countries, particularly in the infrastructure and extractive sectors. Output in IDA countries is expected to contract by 0.8 percent in 2020, the lowest growth rate since the 1960s.[2] Output in fragile and conflict-affected IDA countries (IDA FCS) is expected to contract by more than triple the IDA average at 2.6 percent. Some IDA countries will be affected more than others—countries dependent on commodity exports (particularly oils and metals), countries with strong trade and tourism links and small states will be particularly hard hit. Among IDA FCS, output in *Afghanistan* is expected to contract by more than 5 percent and *South Sudan* by more than 23 percent. In per capita terms, these contractions are expected to be far more severe (see Figure 1). Substantial uncertainty clouds this outlook, with risks tilted firmly to the downside. If outbreaks—either in IDA countries or in major global economies—are not brought under control as is currently assumed, growth would contract further. Given IDA countries' underlying vulnerabilities, a more persistent or severe pandemic would trigger a deeper and longer lasting recession, with output in IDA countries contracting by 3.2 percent in a downside scenario.

---

[2] Data presented in this report is consistent with data presented in *Global Economic Prospects*, World Bank, June 2020.

Figure 1. GDP per Capita in IDA Countries



The Chart shows growth rates in IDA countries, including Blends, using GDP weights at 2010 prices and market exchange rates. The bars in grey show the baseline scenario, and the blue dots show the downside scenario.

3. **Challenges are compounded by narrow fiscal space and limited fiscal buffers.** Even before the pandemic, fiscal space in IDA countries was severely constrained, with primary deficits averaging around 2 percent of gross domestic product (GDP). The effect of the crisis on government revenues goes further than the already-steep decline in GDP. Tax revenues are expected to decline from 15.7 percent of GDP in 2019 to just under 15 percent in 2020 in IDA countries. This effectively wipes out progress made on domestic resource mobilization since 2012.[3] However, given the unprecedented scale of this crisis and its impact on activity, projected declines may be steeper. Income tax and value-added tax (VAT) account for most of the decline, reflecting a slowdown in economic activity, disruptions in value chains, operational restrictions on tax and customs administrations, and the likelihood of lower taxpayer compliance. Revenues in commodity exporting countries are further harmed by lower demand and prices, with tax-to-GDP ratios projected to fall by more than 2.5 percent in *Grenada*, *Nepal*, and *Nigeria*, and falls of more than 6 percent in *Mozambique* and *the Republic of Congo*. In many IDA countries, local municipalities—providers of essential public health services such as water and sanitation—are also being squeezed by the fall of both revenues and transfers. In all, the ability of IDA countries to finance their own measures to bolster weak health systems and mitigate the impacts is extremely limited. Meanwhile, the crisis has exposed weaknesses in governance, rule of law, and institutional capacity, and is stretching governments in IDA countries to respond on multiple fronts.

4. **Growing debt vulnerabilities exacerbate the challenges facing IDA countries.** While debt related risks in IDA countries remain high, with the amount of public debt rising by one-third over the past decade, the pace of downgrades has recently moderated. Also, the median debt to GDP ratio of IDA countries is estimated at 47 percent in 2019, down by 3 percentage points from 2017.[4] However, the number of IDA countries at high risk or in debt distress has risen by more than 20 percent over the same period (see Figure 2), which translates into more grant financing from IDA due to its built-in grant allocation system. On top of these trends, the recession will lead to a significant reduction in the debt ratio denominator and could lead to a depreciation of local currencies. In 2020, with the COVID pandemic, government indebtedness among IDA countries will further increase. And since public debt portfolios in many IDA countries still consist largely

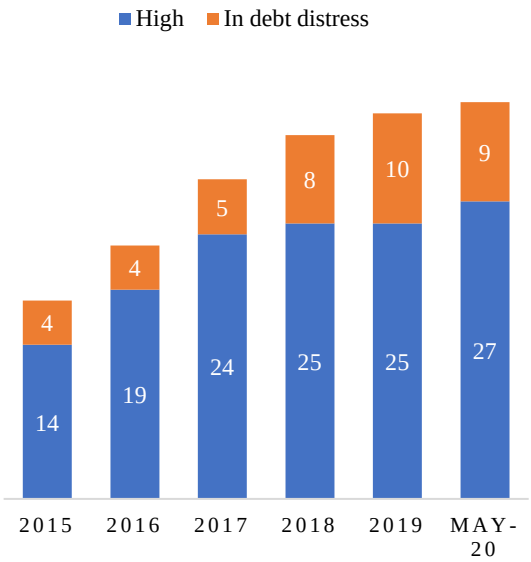
---

3 *Macro Poverty Outlook*, World Bank, April 2020.

4 These figures are based on *World Economic Outlook*, International Monetary Fund (IMF), October 2019.

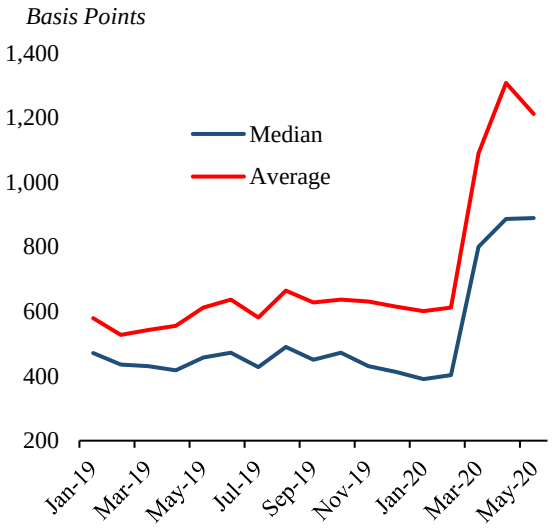
of foreign currency denominated debt, external debt burdens could worsen to the extent risk aversion and other factors could lead to a substantial depreciation in local currencies. In addition, in many IDA countries, contingent liabilities are hidden in state-owned enterprises or Public Private Partnerships. In the context of contracting domestic activity, these risks could materialize and add further to the debt burden, underscoring the critical need for greater transparency about public sector indebtedness. Amid sharp currency depreciations and increased borrowing costs, reduced access to financing and markets can be expected for some IDA countries (see Figure 3). All of this constrains fiscal space for IDA countries to spend as needed to mitigate the extraordinary impacts of this crisis.

Figure 2. Number of IDA Countries in Debt Distress, 2015 to 2020



Charts shows LIC-DSA from 2015 to May 2020.

Figure 3. Emerging Bond Market Index Spreads for Select IDA Countries



Charts shows EMBI spreads in those IDA countries for which data is available (Côte d'Ivoire, Ghana, Mongolia, Nigeria, Senegal, and Zambia) as of May 15, 2020.

5. **The recession will weigh on potential growth in IDA countries for years to come.** Historically, recessions lower potential output levels for four to five years after the event, and the effects are much larger if the recession is accompanied by either a financial crisis or a plunge in oil prices (see Figure 4). Even if the recession is short, which seems decreasingly likely, IDA countries are now on a lower trajectory. Thus far, an extraordinary global policy response has prevented the slowdown from becoming a financial crisis, but if pandemic impacts continue to grow, financial crises may follow, resulting in a collapse in lending and a longer recession. Moreover, the recovery phase is expected to be weaker for the poorer IDA countries. There is also a risk of countries getting stuck in a '*low recovery trap*,' not being able to adjust and tap into their full potential. Lower growth potential will also weigh on IDA countries' scope to mobilize domestic resources, constraining fiscal positions and potentially limiting needed development spending, particularly on health, education, and infrastructure—likely putting the Twin Goals and SDGs further from reach.

Figure 4. Cumulative Slowdowns in Potential Output After Recessions

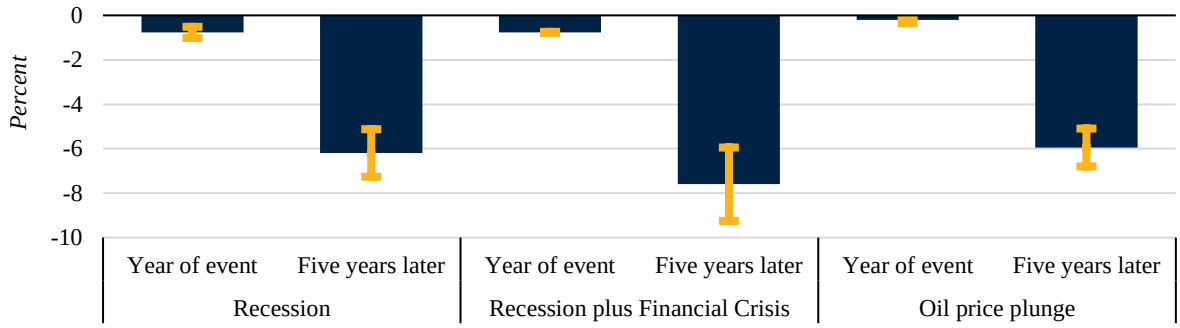


Chart shows impulse responses in 41 IDA countries (18 LICs and 23 LMICs) and 2 recent IDA graduates in the year of an event and five years later. The dependent variable is the cumulative slowdown in potential output after a recession, or after a financial crisis along with a recession, or after an oil price plunge not necessarily accompanied by recession. Blue bars show coefficient estimates and yellow lines show 90 percent confidence bands.

6. **The crisis has put hundreds of millions of private sector jobs at risk in IDA countries, particularly in countries that have worked hard to integrate into global markets**. Tourism jobs have evaporated—in *Malawi*, around 35,000 tourism jobs had already been lost by early April 2020, and in *Fiji* and *Vanuatu*, around 20 percent of all jobs in the country are projected to be lost.[5] In *Bangladesh*, the apparel sector alone could lose over 2 million jobs, mostly for low-skilled female workers, as a result of global buyers cancelling over US$3 billion in export orders.[6] In *Kenya*, over 1 million direct and indirect jobs are at risk from the collapse in European demand for cut flowers alone.[7] Beyond the immediate jobs crisis, it is not yet clear which jobs will return or be sustainable in the recovery phase. If global value chains weaken, there would be lasting impacts for jobs, private investment and growth potential in IDA countries. If the state takes a larger role in financing critical firms—globally or in IDA countries—the degree of competition in the market will be reduced. The future of tourism and travel is not yet clear. Meanwhile, it is clear that the digital economy will be key to resilience, yet the lack of digital infrastructure and skills gaps may limit many IDA countries from participating fully in the post-crisis global economy.

7. **The impacts on the informal economy and on micro, small and medium sized enterprises (MSMEs) have been devastating.** In IDA countries, the self-employed account for more than 70 percent of workers and nearly all poor and near-poor workers. Earnings of informal workers are expected to fall by around 80 percent in the first three months of the crisis.[8] Africa (AFR) will be hardest hit. The effect of containment measures has been particularly severe in the services sectors, on which most rural-to-urban migrants rely. Even as containment measures are lifted, recovery in these sectors is likely to be slow.

---

5 *Pacific Insight: Zero Tourists for at least Three Months*, ANZ Bank Research, 25 March 2020.
6 Bangladesh Garment Manufacturers and Exporters Association, 29 April 2020.
7 *COVID-19 and the Future of Work in Africa*, Brookings Institution, 21 May 2020.
8 ILO Monitor: *COVID-19 and the World of Work*, Second and Third Edition, April 29, 2020.

8. **Falls in remittances are putting further pressure on households in IDA countries, with long-term impacts**. In 2019, remittances comprised 8.3 percent of GDP in IDA countries, nearly double that of non-IDA lower middle-income countries (LMICs) and middle income countries (MICs).[9] In 2020, these remittances are expected to fall by around 21 percent, more than US$27 billion, as migrant workers are more vulnerable to the loss of employment and wages in their host country than native-born workers.[10] Some countries will be particularly hard hit: for example, remittances to the *Kyrgyz Republic, Lesotho,* and *Zambia* are expected to fall by 28 percent or more. From March to April, remittances to Nepal fell more than 50 percent compared to the previous year. Many Small States are affected also (see Box 1). Remittances offer an economic lifeline for many families and catalyze improvements to livelihoods and human development outcomes, particularly in health and education. Falls in remittances will thus have knock-on effects through local economies, even after remittances return—and it takes time for remittances to return.

Box 1. Spotlight on Small States

Small States are hit from multiple directions, including by the collapse in tourism, the fall in remittances, and in some cases their reliance on commodity exports. Around half of all IDA Small States will fall in the bottom quartile of IDA growth in 2020. The *Maldives* is expected to contract by 13 percent, *Grenada* by 9.6 percent, *Sao Tome and Principe* by 9.5 percent, *Vanuatu* by 8 percent, and *Solomon Islands* by 6.7 percent. Many Small States also face rising deficits and high debt vulnerabilities, as well as challenges in accessing credit markets. For example, median government debt-to-GDP in IDA small states is around 7 percent higher than in other IDA countries. This crisis comes atop recent natural disasters to create a perfect storm. From March 1 to May 31, 2020, IDA committed US$407 million to Small States, an increase of around 42 percent from the same period last year. Work is underway to scale up support for the economic and social response in FY21.

B. Implications for People

9. **Early poverty projections for IDA countries are sobering**. When compared with pre-crisis forecasts, COVID-19 is projected to push around 31 million more people in IDA countries into extreme poverty in 2020. Of these, more than half (18 million) live in IDA FCS.[11] Poverty rates in IDA countries in 2020 are projected to increase from 27.5 percent to 29.8 percent in the baseline scenario to 30.6 percent in a downside scenario (see Figure 5). This effectively wipes out progress made on poverty reduction during IDA18. Moreover, these projections may be conservative and could worsen as more information becomes available. In the interim, high-frequency monitoring surveys show that the poverty and distributional impacts of COVID-19 are materializing fast with dire consequences. For example, in *Ethiopia*, 50 percent of households reported income losses in the month prior to the survey due to employment shocks and falls in remittances. In *Nigeria*, 79 percent of households have reported income losses, and 42 percent of

---

9 Remittances comprise more than 20 percent of GDP in several IDA countries, including *Haiti, Honduras, Kyrgyz Republic, Lesotho, Nepal, Tajikistan, Tonga* and *South Sudan*.

10 Source: KNOMAD, Remittance Inflows database, accessed 28 May 2020. While these declines are sharp, the relative importance of remittance flows as a share of external financing for IDA countries is expected to rise as other types of resource flows decline even more.

11 Based on the FY20 FCS List.

respondents who were working before the outbreak reported that they are no longer working.[12] In *Bangladesh*, 93 percent of respondents reported income losses of 75 percent or more over the previous month, and around 72 percent of respondents lost their jobs or saw their economic opportunities reduced.[13]

Figure 5. Poverty Rates and Millions of Poor in IDA Countries

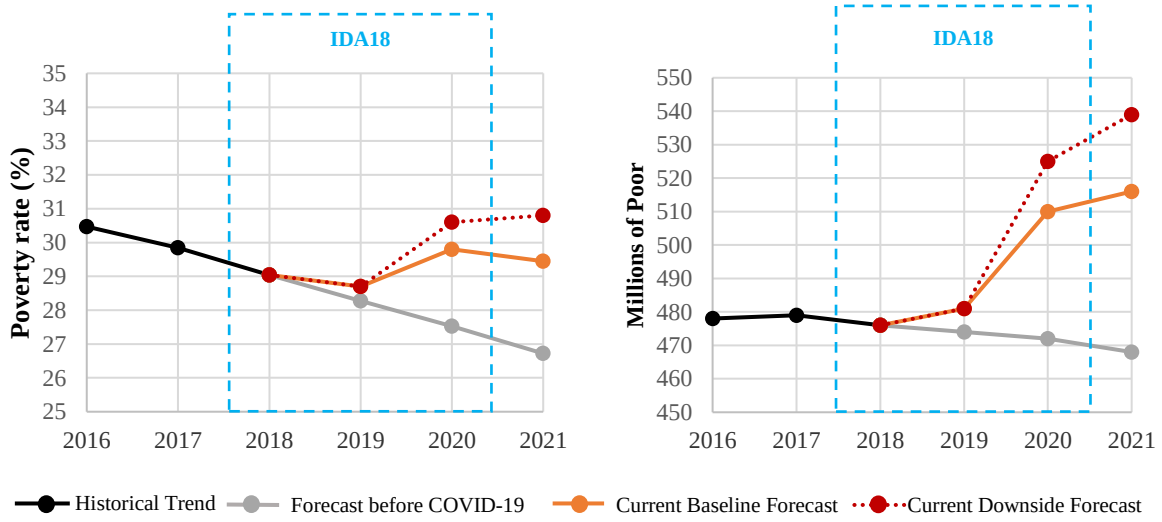


Chart shows IDA countries, including Blends. Poverty is measured using the international poverty line of $1.90 per person per day in 2011 PPPs. Data is based on the June 2020 Global Economic Prospects report. Information on methodology is available in Lakner et al. (2020) (forthcoming). How Much Does Reducing Inequality Matter for Global Poverty? Global Poverty Monitoring Technical Note; 13. Washington, D.C. World Bank Group.

10. **While COVID-19 affects everybody, the impacts on the poor and vulnerable in IDA countries are likely to be deeper and longer lasting**. Many of the new poor will likely be in cities. COVID-19 containment measures in *urban areas* have left many poor people without a way to make a daily living. The urban poor tend to live in congested settlements with disrupted food supply and limited access to services. Meanwhile, the capacity of governments to quickly provide income support in these areas is limited, as existing social safety nets often target rural areas, and policy responses to support firms mostly benefit the formal sector. People in *rural areas* have less exposure to the disease, but also less access to health services. Earnings in agriculture have fallen sharply, due to loss of access to inputs, rising transport costs, labor

Box 2. Who are the new poor?

The profile of the new poor is likely to differ from the existing poor. Simulation results for Sub-Saharan Africa, for example, show that the new poor are more likely to live in urban areas, have at least some primary education, be self-employed outside of agriculture, work in service or sales occupations, and live in a female headed household. More than half the new poor are expected to be children.

[12] *COVID-19 Impact Monitoring*, National Bureau of Statistics of the Federal Republic of Nigeria and the World Bank, June 2020. In the same survey, around 85 percent of households reported rises in food prices, and 51 percent have reduced food consumption. Only 62 percent of respondents reported that their children had engaged in any learning or educational activities since school closures.

[13] https://foreignpolicy.com/2020/04/10/poor-countries-social-distancing-coronavirus/

restrictions and declining demand, even though food prices are rising in urban areas. Off-farm earnings, critical for keeping many rural households out of poverty, are also impacted by declining demand and, in some cases, increasing labor market competition. For example, in *Ethiopia*, the return of casual laborers from cities to rural areas is increasing competition for low-skilled jobs and driving down local wages.[14] People in rural areas also tend to rely on domestic remittances, which have collapsed. Poverty impacts may also vary over time, with urban areas being hardest hit initially, and rural areas increasingly affected over time. Vulnerabilities are compounded by limited savings and lack of access to formal credit and insurance, driving people to negative coping strategies, such as depletion of working capital and sale of productive assets. Short-term income losses can quickly translate into permanent losses of assets and human capital, which are hard to rebuild, even in the medium term. The crisis will likely worsen inequality, in part through its disproportionate impact on low-skilled workers. A recent IMF study of the history of pandemics finds that the net Gini co-efficient increases on average by nearly 1.5 percent within 5 years after a pandemic, which is a large impact given that this measure moves slowly over time.[15]

11. **Gender inequalities are set to widen during and after the crisis, reversing gains in women's and girls' accumulation of human capital, economic empowerment, and voice and agency, painstakingly built over recent IDA Replenishments**. Many of the service sector jobs that are hit hard by the crisis are disproportionately female, while women remain overrepresented in informal jobs without social protection plans, which will take on added significance with expected increases in the number of widows. In addition, sharply increasing care burdens are likely to push women, who predominate as caregivers in every region of the world, out of the labor market. Disruptions to health services particularly affect women and girls. Added to this, patriarchal norms, economic uncertainty and stress combined with confinement measures and disruptions in services have already triggered disturbing increases in domestic violence across countries affected by COVID-19

12. **The crisis is having profound direct and indirect effects on *health* in IDA countries, eroding human capital and development prospects**. Health systems were already weak before the pandemic, and many are overwhelmed. COVID-19 is spreading through IDA countries, and in some IDA countries (particularly IDA FCS) the numbers of cases and deaths is likely far higher than reported. Essential service delivery is also being disrupted, which is likely to affect IDA countries' journey to universal health coverage, and will particularly affect women, children and vulnerable groups. For example, more than 17 million people in IDA countries live with HIV (around half of the total number of people globally), and they are particularly vulnerable to both the pandemic and to any disruptions to health service delivery. It is estimated that, over the next 12 months, around 19 million fewer children living in IDA countries may receive essential treatment for pneumonia, 33 million fewer may receive Diphtheria, Pertussis (whooping cough), and Tetanus (DPT) vaccinations, 4 million fewer facility-based deliveries may be conducted. This level of disruption across essential health services is estimated to increase overall child mortality in IDA countries by up to 18 percent and maternal mortality by up to 12 percent—this reverses much of the progress made over the past decade (see Figure 6). The widespread interruption of

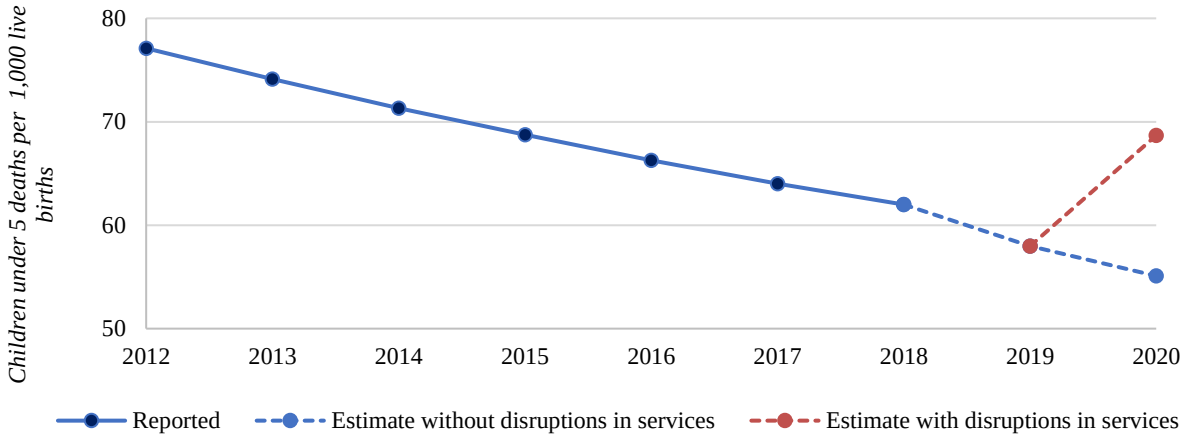
---

[14] World Bank: COVID-19 and Food Security: Update 7, May 14, 2020.

[15] *COVID-19 will raise inequality if past pandemics are a guide*, Davide Furceri, Prakash Loungani, Jonathan D. Ostry, Pietro Pizzuto, 08 May 2020. See also https://blogs.imf.org/2020/05/11/how-pandemics-leave-the-poor-even-farther-behind/.

immunization programs is likely to result in more deaths in IDA countries than COVID-19 itself, and such disruption particularly affects children in IDA FCS, where immunization relies on community outreach most of which has been suspended

Figure 6. Children under Five Mortality Rate in IDA Countries



Estimates by the World Bank and Global Financing Facility based on Roberton et al., 2020. Estimates include IDA countries (except Kiribati, Kosovo, Marshall Islands, Federal States of Micronesia, and Tuvalu for which data was not available) and assume that service coverage for maternal and child interventions is reduced to an extent similar to that experienced during the Ebola epidemic and lasting for 6 months.

13. **Similarly for *education*, the crisis is causing enduring damage to human capital and development prospects in IDA countries**. Even before the pandemic, IDA countries faced a learning crisis, in which one in three school-age children were out of school and the learning poverty rate—the share of 10-year-old children unable to read for meaning—was 80 percent. The twin shocks of extended school closures followed by recessions exacerbates this crisis. At their peak in early April 2020, school closures affected around 377 million children in IDA countries, around 98 percent of learners. There is concern that some learners, particularly girls, may not return—for example, when schools closed for nearly a year in *Sierra Leone* due to the Ebola outbreak, girls were 16 percent less likely to be enrolled after schools reopened.[16] For learners who do return, the time out of school can cause learning losses that continue to accumulate. For example, in the four years after the 2005 *Pakistan* earthquake that closed schools for around 3 months, students who lived closest to the fault line lost the learning equivalent of 1.5 to 2 years of schooling, and this was despite recovery in other areas, such as household wealth and consumption, and public infrastructure. These losses were larger than could be explained by school closures alone, suggesting that if children fall behind, they may learn less each year thereafter.[17] The

[16] Bandiera, O., N. Buehren, M. P. Goldstein, I. Rasul, and A. Smurra. 2019. *The Economic Lives of Young Women in the Time of Ebola: Lessons from an Empowerment Program*. Washington, DC: World Bank.

[17] Andrabi, T., Daniels, B., Das, J. 2020. *Human Capital Accumulation and Disasters: Evidence from the Pakistan Earthquake of 2005.* RISE Working Paper Series. 20/039. See also The COVID-19 Pandemic: Shocks to Education and Policy Response, World Bank, May 2020, available at https://openknowledge.worldbank.org/bitstream/handle/10986/33696/148198.pdf?sequence=4&isAllowed=y.

ensuing global economic shock could further worsen learning outcomes, reduce access to meals at school, and increase dropout rates. The twin shocks would also exact heavy long-term costs on human capital accumulation, development prospects, and welfare. As just one indication of this, even relatively conservative cost estimates (which assume that school systems can partially mitigate learning loss through remote learning) indicate that IDA countries stand to lose US$500 billion in present value from the immediate impacts of school closures and economic shocks.[18] Moreover, the risk is not only that the crisis causes outcomes to stagnate over the next two years as schools struggle to make up the learning losses. The historical rate of reduction in learning poverty in IDA countries has been dismal, and acceleration in the reduction of learning poverty has been much needed. That acceleration risks being postponed if fiscal pressures cut education budgets and the crisis diverts attention and investments. In that case, the rate of progress in learning and education outcomes in general is likely to revert to historical levels, which would delay by two decades the attainment of the learning target in IDA countries to halve the current extremely high rate of learning poverty.

14. **COVID-19 has been described as a "*heat-seeking missile speeding toward the most vulnerable in society*"**.[19] Groups like refugees, internally displaced people, migrants, female heads of household, and people with disabilities are particularly hard hit. Even before the crisis, these groups were less likely to access health, education or social protection services or tap into economic opportunities or participate in their communities—all of which is now compounded. The recession and contraction of the job market, particularly in the informal sector, is likely to limit the few economic opportunities open to these groups. For refugees, there are already signs of rising exclusion and xenophobia, which raises protection risks. For people with disabilities, not only are they more vulnerable to COVID-19, many also struggle to access public health information and services, such as water, sanitation, and hygiene (WASH), and the disruption and rationing of other health services is likely to bring further negative impacts.

15. **The crisis may also put further pressure on international migration**. In the short term, migrants that lose jobs are less likely than normal to return home due to travel disruptions. In the longer term, income gaps with richer countries are expected to widen, and this is the primary driver of outward migration. Some job seekers may succeed, while others may be stranded in transit countries or find a hostile reception in host countries.

C. Implications for Resilience

16. **The COVID-19 crisis is exacerbating other crises facing IDA countries, and may affect resilience in the medium term**. Indeed, for many IDA countries, COVID-19 is another crisis superimposed on existing crises which are linked. A few examples are outlined below.

---

[18] Present value estimates are in 2017 PPP dollars; estimates use the latest available data for 57 IDA countries covering 96% of the student population. See Azevedo, Joao Pedro, Amer Hasan, Diana Goldemberg, Syedah Aroob Iqbal and Koen Geven (2020) *Simulating the potential impacts of COVID-19 school closures on schooling and learning outcomes: A global estimate.* Policy Research Working Paper Series, forthcoming, World Bank.

[19] *COVID-19 Mortality in Rich and Poor Countries A Tale of Two Pandemics?* Philip Schellekens and Diego Sourrouille, World Bank Group Policy Research Working Paper 9260, May 2020.

17. **The COVID-19 crisis is worsening food security conditions globally and could exacerbate current food crises and lead to new ones in the coming year.** COVID-19 is causing widespread disruption to food supply chains, which is leading to higher food prices. This in turn reduces the purchasing power of the poor and near-poor, most of whom have suffered income losses and have very limited savings. Across 46 countries—37 of which are IDA countries—113 million people are expected to require emergency food assistance in 2020, 25 percent more than peak needs prior to the outbreak.[20] The World Food Programme (WFP) predicts a doubling in the global number of acute food insecure from the pre-COVID19 estimate of 135 million to 260 million by the end of 2020.[21] These impacts are being felt disproportionately by IDA FCS. COVID-19 is also exacerbating pre-outbreak stresses such as the ongoing locust outbreak spreading across Africa, the Middle East, North Africa and South Asia, as well as the worsening weather extremes in the Sahel. Around one quarter of all IDA countries (19 countries) are emerging as the countries of greatest concern for food security crises within the next 12 months.

18. **The crisis is also threatening stability and exacerbating existing drivers of fragility in IDA countries – both FCS and non-FCS.** The crisis can threaten the state-citizen relationship where governments are unable to respond to the crises, where containment measures are perceived as restricting civil liberties, and/or where there is a perceived exclusion or politicization of the response. A breakdown of trust between neighbors and communities can lead to erosion of social cohesion, as well as 'scapegoating', xenophobia, and violence. Several IDA countries including *Ethiopia* and *Kenya*, have seen increased attacks on people suspected of carrying the virus. The economic impacts are likely to reinforce inequalities—including gender, horizontal and vertical inequalities—and fuel exclusion and grievances by diverting scarce resources, for example from one part of a country to another. Violent extremist groups have publicized their intent to take advantage of this window of opportunity, and attacks have continued in several IDA FCS, including *Afghanistan*, *Niger* and *Mali*. Lack of economic alternatives may facilitate recruitment by violent groups and reduced peacekeeping capacity may increase space for non-state armed groups (for example, in *Mali* and the *Democratic Republic of Congo (DRC)*, where United Nations (UN) peacekeeping missions have suspended rotations/deployments). Civil unrest, heavy-handed government responses, or increased space for violent extremism may lead to an increase in the number of conflict related deaths, such that some countries experiencing medium-intensity conflict could escalate to high-intensity, while countries below the threshold could escalate to medium-intensity conflict. There is also the prospect that IDA countries that were not previously considered IDA FCS could exhibit such stresses that entirely new fronts of fragility and conflict emerge on the IDA landscape. Such shifts would have far-reaching consequences that would further set back progress toward the Twin Goals and SDGs.

---

[20] Famine Early Warning System Network, April 2020. Global Needs Increase Sharply as Indirect Impacts of COVID-19 Pandemic Threaten Food Access.

[21] WFP. April 2020. COVID-19 Will Double Number of People Facing Food Crises Unless Swift Action is Taken.

II. IDA'S RESPONSE TO CLIENT NEEDS THUS FAR AND DEMONSTRATED VALUE FOR MONEY

19. **The repercussions of this multi-dimensional crisis threaten to undermine the shared goals of the IDA19 replenishment.** IDA clients have the capacity and resilience to address the immediate impact and protect hard-won development gains, but they need the kind of effective, fast and flexible support which IDA can provide. The cost of delayed or insufficient action is high—IDA can help countries save lives and resources by responding early and at scale. This section shows how IDA has begun to deliver vital support as part of the global community's immediate response. That said, IDA clients will continue to need reliable concessional financing to navigate the difficult choices ahead and set the stage for a sustainable and resilient recovery.

A. IDA's Response to Client Needs Thus Far

20. **The WBG's—including IDA's—approach to the crisis operates across three stages and four thematic pillars** (Figure 7). The *relief stage* involves emergency response to the health threat posed by COVID-19 and its immediate social, economic and financial impacts. As countries bring the pandemic under control, the *restructuring stage* focuses on strengthening health systems for pandemic readiness; restoring human capital; as well as restructuring, debt resolution and the recapitalization of firms and financial institutions. The *resilient recovery stage* entails taking advantage of opportunities to build a more sustainable, inclusive and resilient future in a world transformed by the crisis. The four thematic pillars are: (i) emergency health support to *save lives* threatened by the pandemic; (ii) social response to *protect the poor and vulnerable* from the socio-economic impacts of the crisis; (iii) economic response to *save livelihoods, preserve jobs, and ensure more sustainable business growth and job creation* by helping firms and financial institutions survive the initial shock, restructure and recapitalize; and (iv) focused support to *strengthen policies, institutions and investments* to rebuild better. While IDA's initial interventions are mainly under Pillar I—as well as via the Private Sector Window (PSW) under Pillar III—the movement and sequencing of interventions under the pillars may not be linear, and they will inform and interact with each other. The *WBG COVID-19 Crisis Response Approach Paper* elaborates on this adaptive and selective framework to maximize impact.

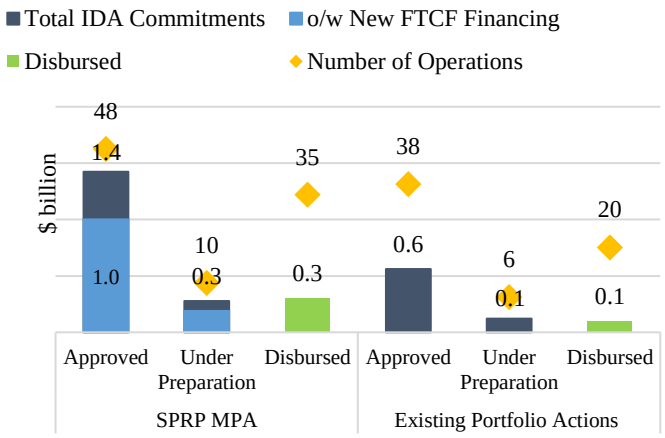
21. **IDA's initial response focused primarily on emergency health support.** In March 2020, the Board of Executive Directors endorsed a WBG FTCF of up to US$14 billion, which includes up to US$6 billion from the Bank, of which up to US$1.3 billion is new IDA financing from the Crisis Response Window (CRW). Funding is provided under the Strategic Preparedness and Response Program (SPRP) which uses a Multiphase Programmatic Approach (MPA). In addition to new financing, staff are working with countries to redirect project funds for surge support. So far, 29 Contingent Emergency Response Components (CERCs) have been activated, and seven Catastrophe Deferred Drawdown Options (Cat DDOs) in Development Policy Financing (DPF) have been triggered in IDA countries.

Figure 7. The WBG COVID-19 Crisis Response

	RELIEF	RESTRUCTURING	RESILIENT RECOVERY
PILLAR I Saving Lives	***Public Health Emergency*** • Health MPA & project restructurings • DPFs	***Restructuring Health Systems*** • Health MPA & new IPFs • IFC Health Value Chain Platform	***Pandemic-Ready Health Systems*** • Health MPA & new IPFs • IFC LTF to pvt providers & manufacturers
PILLAR 2 Protecting the Poor & Vulnerable	***Social Emergency*** • Cash/in-kind transfers, CDD projects, DPFs • Project Restructurings • Govt guarantees to MFIs	***Restoring Human Capital*** • Cash/in-kind transfers, CDD projects, DPFs • New IPFs • IFC recapitalization of strategic MFIs	***Building Equity & Inclusion*** • Cash/in-kind transfers, CDD projects, DPFs • ASA on active labor market policies • IFC lending to MFIs
PILLAR 3 Ensuring Sustainable Business Growth & Job Creation	***Economic Emergency*** • DPFs, FILs, P4Rs & IPFs • IFC trade & working capital lines, MIGA instruments • PPP Financing Vehicles	***Firm Restructuring & Debt Resolution*** • DPFs & IPFs • IFC restructuring & recapitalization of firms • PPPs, IFC LTF & MIGA instruments	***Green Business Growth & Job Creation*** • DPFs & IPFs • IFC/MIGA instruments • PPPs
PILLAR 4 Strengthening Policies, Institutions & Investments for Rebuilding Better	***Maintain Line of Sight to Long-term Goals*** • DPFs on fiscal strengthening & service delivery • ASA for understanding COVID-19 related transformations, SME & MFI guarantee schemes • ASA for debt sustainability, management & transparency	***Policy & Institutional Reforms*** • DPFs on policies & institutional reforms for restructuring & resilience • ASA for restructuring • ASA for tracking Twin Goals & SDGs	***Investments to Rebuild Better*** • Full range of WBG instruments with focus on PPP, upstream project development & mobilizing private solutions • ASA for tracking Twin Goals & SDGs

22. **Client demand for support under the FTCF has been significant.** As of June 12, 2020, IDA has provided US$2.0 billion across 67 countries for 86 operations under both the SPRP MPA and reprioritizations in the existing health portfolio (Figure 8). Of these, US$1.4 billion for the SPRP MPA—including close to US$1 billion from the CRW for the FTCF—has been committed, with US$302 million disbursed. These span 48 operations under the MPA, of which 44 are signed and 41 are effective. A further US$144 million in seven countries is

Figure 8. IDA's COVID-19 Health Response



Includes Sri Lanka which received IDA Transitional Support under the MPA.

expected to be committed in June 2020.[22] Meanwhile, restructurings and other reprioritizations within existing portfolios account for US$561 million. After this strong start, measures to expedite disbursements are now underway.[23]

23. **In addition to emergency health support, the relief stage also entails helping countries to cope with the economic and social fallout of the crisis**. Overall, 24 operations in 21 countries for an estimated US$3 billion are expected to be delivered in Q4 of FY20 for economic and social responses (see Table 1). These are primarily funded through pipeline reprioritization and recalibration of existing portfolios via cancellations, to help fill funding gaps for the remainder of IDA18. In addition, IDA Executive Directors approved in April 2020 the reallocation of up to US$2 billion from the Regional Window and Scale-up Facility (SUF) to the CRW.[24] These exceptional reallocations provide further flexibility to finance crisis support within the limited residual IDA18 resources. Management has used such reallocations selectively, with prudence and as a last resort. This modality would benefit two countries, providing US$143 million in DPFs.

Table 1. FY20 Q4 IDA COVID-19 (excluding health response)

	Expected by end of FY20	o/w using exceptional allocations*
Planned commitments (US$ billion)	3.0	0.14
Number of operations	*24*	*2*
Number of countries	*21*	*2*

Note: Estimates as of June 11, 2020.
**See footnote 24.*

24. **The existing IDA portfolio and pipeline provide a strong basis for the crisis response.** For instance, strengthening cross-border collaboration for outbreak detection and response is a longstanding priority of IDA's regional integration efforts, and is now a key element of its COVID-19 interventions in AFR. Since the HIV/AIDS and West Africa Ebola epidemics, efforts have been made to augment investments, build networks and foster a joint vision among countries. This groundwork enables the region to quickly scale up its response to COVID-19 (see Box 3). Existing Community-Driven Development (CDD) programs are also being used. For example, in the *Horn of Africa* and *Solomon Islands*, community organizations and governments are using CDD to share prevention and hygiene messages, provide vital water and sanitation services, and support livelihoods for the most vulnerable.

25. **IDA windows are likewise contributing to the response.** New IDA financing under the FTCF was funded out of the CRW. Meanwhile, the PSW has augmented the International Finance Corporation's (IFC's) immediate response to COVID-19 with US$515 million in support of the Global Trade Finance Platform (GTFP), the Real Sector Envelope (RSE) and the Working Capital Solutions (WCS) Platform. Projects under the Refugee Window have been adjusted to focus on

---

[22] This is different from Figure 8 which shows that US$0.3 billion in SPRP MPA operations are under preparation. This is because Figure 8 includes financing expected to be committed in FY21.

[23] These include: (i) ensuring all steps for signing and effectiveness are taken soonest, (ii) following up with counterparts to review and process retroactive financing, which can lead to disbursement of 40 percent of the financing amount; and (iii) ensuring that countries expedite withdrawing initial deposits to designated accounts.

[24] The US$2 billion figure represents a ceiling for using this exceptional modality for countries. Actual reallocations made so far are $0.14 billion from the Regional Window and SUF. If a country uses the exceptional modality, a corresponding amount will be deducted from its FY21 IDA country allocations and returned to the Regional Window and SUF at the beginning of FY21.

COVID-19 responses in refugee settings. As shown in Box 3, the Regional Program has been critical to COVID-19 response through existing engagements. In addition, SUF projects approved in Q4 of FY20 are supporting health systems in *Liberia*, providing liquidity financing in the Common Market for Eastern and Southern Africa (COMESA) region, and embedding support within existing infrastructure financing in *Bangladesh*.

Box 3. Responding to COVID-19 via Existing Engagements under the IDA Regional Program

Through existing Regional Program engagements, IDA support has enabled countries to:

- *Leverage regional networks and operations to catalyze an immediate, large-scale response* through the US$670 million Regional Disease Surveillance Systems Enhancement Program, US$128 million East Africa Public Health Laboratory Networking Project and the Africa Center for Disease Control and Prevention.
- *Maximize economies of scale for cross-border scientific collaboration* through support to the Africa Center of Excellence for the Genomics of Infectious Diseases and the West Africa Center for Cell Biology of Infectious Pathogens.

Going forward, IDA will continue to draw on regional programs to support countries in managing pandemic prevention and control. Regional cooperation will also be critical in supporting economic recovery and stimulating jobs through cross-border economic activity, infrastructure and trade.

26. **In April 2020, IDA Executive Directors approved a package of measures to ensure a robust response in FY21.** Management will frontload 43 percent of IDA19 resources into FY21 to make available up to US$35 billion, which will support IDA clients to weather this crisis. For grant-eligible countries with an updated Debt Sustainability Analysis (DSA) indicating deterioration in debt risks due to COVID-19, IDA financing terms will be immediately adjusted in FY20 and FY21. As refugees are particularly vulnerable, up to US$1 billion in full grants has been set aside within the Refugee Window for COVID-responsive operations that have substantial policy content, and a strong pipeline of operations is emerging. Management also waived the requirement for countries to recommit IDA18 cancelled credit/grant balances by the end of IDA18. Clients, both IDA-eligible countries and IDA graduates, may recommit such cancelled balances in FY21 instead. Finally, IDA19 graduates *Mongolia* and *Moldova* will benefit from temporary CRW access in FY21, and a pause in the application of the accelerated repayment clause for IDA credits.

27. **Overall, IDA is mounting a response to COVID-19 with unprecedented scale, speed and agility**. The FTCF was endorsed by Executive Directors on March 17, 2020—just over one month after the World Health Organization (WHO) declared COVID-19 a Public Health Emergency of International Concern[25] (PHEIC) and six days after it was recognized as a pandemic. The first batch of 25 FTCF operations across IDA and the International Bank for Reconstruction and Development (IBRD) was submitted for Board approval within three weeks,[26] compared to an

[25] The WHO declared that the outbreak constitutes a PHEIC on January 30, 2020.

[26] Preparation of the SPRP MPA and the first 25 operations began in earnest in early March 2020, with Board endorsement of the FTCF on March 17. The SPRP MPA Project Appraisal Document (PAD) and the first 25 operations were approved by the Board on April 2. The exceptional processes under the FTCF has helped enhance the speed of response.

average of 15 months before COVID-19. The time from project approval to effectiveness is 10.5 days, another Bank record. Moreover, given the difficulties worldwide in securing critically needed medical supplies, a new Bank Facilitated Procurement (BFP) option is now available to help clients navigate this challenging landscape, with the Bank facilitating countries' access to global suppliers and negotiating prices and other conditions on their behalf.

28. **Tailoring and selectivity are also key, with project content being designed to address country-specific impacts and needs.** While the FTCF focuses on emergency response, it also supports bolstering capacity for public health prevention and preparedness, including filling gaps in surveillance systems for infectious diseases in line with the One Health approach. In *Haiti*, a US$20 million IDA grant will improve testing and contact tracing as well as provide laboratory and protective equipment. In *Afghanistan*, IDA is providing US$100 million for investments to diagnose human and animal health diseases by increasing surveillance capacity, strengthening laboratory and diagnostic systems, and enhancing containment. A new US$210 million national CDD program is also being prepared, and would provide cash or in-kind assistance to an estimated 90 percent of households, or some 34 million people who live on less than US$2 a day. In *Yemen*, a US$26.9 million IDA grant is being implemented with WHO to limit the contagion there and help fortify fragile structures for public health preparedness. In the *Kyrgyz Republic*, IDA is providing US$12.5 million to support rapid response teams and strengthen healthcare facilities and border points of entry.

29. **IDA's assistance goes beyond direct health interventions and spans a range of sectors.** In *Ethiopia*, IDA is working with the authorities to ensure all healthcare facilities have round-the-clock access to water, as well as to replace and rehabilitate water pumps and boreholes. On the economic front, IDA operations provide quick liquidity while supporting reforms to address growth constraints in IDA countries, many of which are exacerbated by the crisis—such as unreliable and expensive energy and inefficient service delivery. For example, the *Burkina Faso* Second Fiscal Management, Sustainable Growth and Health Service Delivery DPF aims to strengthen fiscal management to create fiscal space for more pro-poor and productive spending and to protect jobs and foster inclusion in rural areas through artisanal mining and livestock productivity. In *Nigeria*, the upcoming COVID-19 Federal Fiscal and Economic Response DPF would help safeguard revenues and financing flows, as well as strengthen fiscal and debt management, in part by enforcing fees on gas flaring and adopting reforms to eliminate inefficient petrol/gasoline subsidies. These actions also support IDA19 climate commitments. In *Mongolia*, the upcoming Emergency Relief and Employment Support Project will provide temporary relief to workers affected by the crisis, improve labor market access, and support micro entrepreneurs to start and grow sustainable MSMEs. In the *Horn of Africa*, the regional Development Response to Displacement Impacts Project will scale up to convey basic hygiene messages, as well as provide water and sanitation services and urgent income support to three million refugees and host community members.

30. **COVID-19 has necessitated new ways of conducting business, and IDA is rising to the challenge.** This requires overcoming operational constraints such as on travel, data collection and project supervision. The use of virtual meetings—both within teams and with clients—has soared since the crisis, averaging over 9,200 virtual meetings each day to deliver an unprecedented surge of emergency support. Demand for, and use of, Geo-Enabling initiative for Monitoring and

Supervision[27] (GEMS) in IDA countries has more than doubled. GEMS has been used in diverse ways, from Monitoring & Evaluation (M&E) of projects and remote portfolio supervision, to applications like health facility and service assessments, tracking of medical equipment, mapping of transmission hotspots, and beneficiary needs assessments. GEMS and solutions such as remote sensing via satellite imagery also enable data collection in FCV settings and areas with limited digital connectivity.[28] In addition, IDA is supporting countries to deliver basic services remotely, such as via telemedicine, remote learning and government e-services. Overall, IDA is gleaning important lessons on how to improve its agility, efficiency and effectiveness, and the application of these lessons for the future of work can further enhance IDA's value for money.

31. **That said, mounting an unprecedented response during a global lockdown poses considerable implementation challenges, which are being addressed in real-time as they arise.** The constraints identified from a staff survey include: (i) limited institutional and operational capacity, especially amid curfews and lockdowns; (ii) difficulties transmitting large documents due to variable internet capacity; (iii) limited knowledge of Bank systems in new implementation units; (iv) procedures to process signing and effectiveness; and (v) procurement challenges, given global shortages of equipment and supplies. Bank teams have redoubled their efforts to understand country-specific constraints, identify bottlenecks, and provide technical and operational support. Progress on procurement is also being made with engagement of UN agencies and the work under the BFP arrangement.[29] Furthermore, the WBG is deepening innovation and peer learning to better serve its clients. For example, the China office was a pioneer in ensuring business continuity during lockdowns, with the rest of the WBG learning from their experience. Nonetheless, given the uncertain depth and duration of the crisis, implementation challenges will continue to unfold and require steadfast attention.

B. IDA's Value in a Crisis

32. **Addressing this multi-dimensional crisis calls for collaboration with others, while harnessing the key features of IDA's architecture and the comparative advantages that set it apart.** The scale and magnitude of the crisis is clearly beyond the response capacity of any single institution. IDA however has several characteristics that make it uniquely well-positioned to play a substantial role in IDA countries.

33. **IDA's hybrid financial model enables partner contributions to be leveraged at scale.** Since IDA18, IDA's leveraging of accumulated equity has stretched each dollar of combined donor contributions to deliver more than three dollars in IDA financing. The success of the model builds on IDA's capital strength, unique mandate and development role, robust track record of

---

[27] GEMS is an initiative to systematically enhance M&E and supervision by building capacity to leverage field-appropriate technology for digital data collection and analysis. GEMS provides platforms for remote supervision, real-time risk monitoring, and portfolio mapping for coordination across projects and entities.

[28] In this regard, IDA is working with entities such as the European Space Agency (ESA) and UN agencies with presence on the ground to reach the poor and vulnerable.

[29] To date, contracts have been signed using BPF for 16 IDA countries in the amount of US$21 million. Several orders have been placed and deliveries have started, for example, *Kenya* received its first shipment of ventilators. In addition to BFP and the UN, some countries are procuring supplies themselves under streamlined procedures.

prudent financial management policies, continued timely repayment by client countries of outstanding loans, and continued strong financial support from IDA's contributing partners—all of which underpin confidence from capital markets and IDA's AAA rating. IDA has successfully entered the capital markets, but it remains a relatively new issuer.

34. **IDA's architecture particularly supports countries to pursue more sustainable debt paths—and does so in a way that supports the poorest countries**. On financing terms, a key feature of IDA's architecture is its automatic adjustment of financing terms to include grants for countries in moderate or high risk of debt distress. The majority of IDA countries already receive at least 50 percent—if not all—of their IDA resources on grant terms. On financing volumes, the Performance-Based Allocation (PBA) framework is informed by the levels of poverty in IDA countries, as well as the country's performance in terms of good governance and institutional capacity, including in relation to debt management. Furthermore, IDA's architecture incentivizes countries to pursue more sustainable debt paths, including by improving debt transparency, strengthening public expenditure management, and making sound debt management decisions. This is buttressed in IDA19 by a series of debt-related policy commitments. To strengthen this further, a key element of IDA architecture in IDA19 will be the Sustainable Development Finance Policy (SDFP).[30] The policy has two objectives: first, it aims to strengthen incentives for IDA countries to borrow sustainably and take priority actions on that path, and; secondly, the policy aims to promote coordination between IDA and other creditors in support of countries' efforts.

35. **In addition, several of IDA's comparative advantages are particularly salient during this crisis.** First, IDA stays engaged through the ebb and flow of crises, maintaining a line of sight to longer-term development needs and the structural reforms needed to realize its clients' ambitions.[31] In doing so, IDA helps to integrate crisis risk management and resilience into broader development agendas and country systems. Second, recognizing that global problems often require local solutions, IDA's country-driven model ensures customized responses. Its unearmarked funds allow clients to respond rapidly and flexibly to changing needs and global headwinds, which has been especially valuable in recent months. Furthermore, IDA's country allocation framework incentivizes clients to stay the course on core governance and improve institutional quality over time. Third, IDA brings the weight and experience of the WBG to bear on the very problems this crisis exposes. A return to sustainable growth and resilience involves the basic building blocks of development—health and education systems, social protection programs, macroeconomic stability, public expenditure management, private sector development and quality infrastructure—areas where IDA offers world-class expertise. Fourth, IDA's strong ground presence, with 2,380 World Bank staff based in 67 IDA country offices, enables IDA to provide close support to clients with minimal travel, and to work with those clients to rapidly identify best-fit approaches given their understanding of local contexts and constraints.[32] Fifth, IDA maintains rigorous fiduciary standards, which takes on added significance amidst heightened corruption risks. IDA's COVID-19 response is accompanied by preventive support, accountability action plans, scaled-up reviews,

---

[30] *Sustainable Development Finance Policy (SDFP) of the International Development Association*, IDA/R2020-0140, April 23, 2020. Approved by the IDA Board on June 9, 2020.

[31] Compared to humanitarian actors that provide immediate relief during crises, IDA's mandate requires continued engagement in countries long after an emergency subsides.

[32] This figure does not include those staff based in nearby locations in the same time zone, such as staff based in Jordan working on Yemen, or staff based in Sydney and working on the Pacific.

enhanced use of technology, heightened implementation support and/or Bank-facilitated procurement, as appropriate. IDA is also working with supreme audit institutions and private audit firms to expand the scope and coverage of external audits. Sixth, IDA is a major player in many FCS, where the crisis impacts will be especially harsh, where FCV risks are rising, and where the poor increasingly reside.

36. **IDA is also leveraging strategic collaborations aligned with its comparative advantages**. It is part of a global coalition spanning humanitarian agencies, development institutions, client governments, bilaterals, Non-governmental Organizations (NGOs) and the private sector. Cooperation with the IMF has intensified,[33] as evidenced by the WB/IMF appeal to the G20 on debt relief for poor countries and the Debt Service Suspension Initiative (DSSI) (see Box 4). IDA collaborates closely with UN agencies, which is particularly important in IDA FCS to support countries and vulnerable communities across the humanitarian-development-peace nexus. In *Afghanistan* for instance, IDA has worked with the United Nations Children's Fund (UNICEF) and the authorities to supply 150,000 Personal Protective Equipment (PPE) kits for 6,821 frontline health workers as part of the US$100 million COVID-19 Emergency Response and Health Systems Preparedness Project. In *Papua New Guinea*, IDA committed US$20 million to a project—to be implemented in coordination with WHO—that will provide rapid support focused on protecting health workers and other personnel, scaling up testing capacity and strengthening public education to combat the spread of the virus. Furthermore, accelerating the development and mass distribution of an effective COVID-19 vaccine would yield economic benefits exceeding US$375 billion and save 200,000 lives for each month that availability is advanced. While there are 159 COVID-19 vaccines in development and ten in clinical evaluation, it is also important that countries have access to vaccines that are successfully developed. Recognizing this, the WBG is cooperating with the global community on the COVID-19 Accelerator to speed up vaccine development and ensure accessibility to all countries, regardless of income level. IDA can also play a key role in strengthening pandemic response and public health systems, which is vital for the effective distribution and delivery of vaccines.

Box 4. Debt Service Suspension Initiative

During crises, IDA countries need immediate fiscal space to mitigate impacts and enable an effective response. Bilateral creditors can support this through the DSSI, whereby G20 official bilateral creditors have agreed to provide a time-bound suspension on debt service payments from May 1, 2020 until December 31, 2020 to all eligible IDA countries requesting forbearance, without application of penalty, interest or late fees. Beneficiary countries would in turn commit to debt transparency and to directing the fiscal space freed up toward mitigating the economic, health, and social impacts of the crisis. In this context, robust debt management and debt transparency are all the more important. IDA's new SDFP will support countries to strengthen debt transparency and management. In parallel, the role of MDBs in a crisis is to elevate the steady flows they traditionally provide with higher volumes of commitments. This ensures the highest possible level of positive net flows for IDA countries, taking into account the long repayment periods and significant grants and grant element embedded in these flows.

[33] More broadly, coordination with the IMF helps ensure consistency of countries' public spending with macroeconomic stability, and with policy actions supported by DPF and other instruments.

37. **While the scale and scope of the crisis is beyond the response capacity of any single institution, it will also be important to avoid fragmentation as the international community scales up support to IDA countries**. By setting the right incentives and galvanizing policy reforms, IDA helps marshal more co-financing for IDA countries. To illustrate, the WBG is working with several bilateral actors such as the *Agence Francaise de Développement* (AFD) to continue building a pipeline of co-financed operations. It is also collaborating with multilateral and bilateral actors on co-financing activities that address the long-term economic impacts of the crisis, and—notably with the Asian Infrastructure Investment Bank (AIIB)—on parallel financing of DPFs. Furthermore, trust funds complement and amplify IDA's impact, particularly in areas where IDA cannot respond. For example, the Health Emergency Preparedness and Response Multi-Donor Fund (HEPRTF) will help advance the agenda on COVID-19 and future epidemics, including to member countries not in good standing with IDA, as well as the *West Bank & Gaza*, and *Jordan* and *Lebanon* for the benefit of Syrian refugees. Separately, the Pandemic Emergency Financing Facility (PEF) insurance triggered for COVID-19 in March, contributing US$196 million. In areas where others are better positioned to lead, the Bank can play a supportive role. For instance, the Bank can provide a customized financing platform for Financial Intermediary Funds (FIFs) which play key roles in vaccine response.[34]

38. **Knowledge, learning and innovation help shape IDA's COVID-19 responses and enhance its impact, while maintaining a line of sight to the Twin Goals and SDGs**. IDA's response is rooted in adaptive learning for course corrections as needed, which is important in a fast-moving crisis environment.[35] Lessons from past health crises also inform the design of COVID-19 operations. For instance, the Ebola crisis in the *DRC*—where local resistance and insecurity were hampering the response—has highlighted the importance of community engagement and direct support, including social protection. In addition, FCV impacts from the pandemic, and longer-term implications on peace and stability, are being integrated into project design. A recent Bank report outlines key policy priorities for disease containment, tackling the economic crisis and rebuilding better, with principles to inform decision-making.[36] Furthermore, IDA is monitoring and responding to compound risks that could be exacerbated by the pandemic.[37] Other efforts include various learning events[38] and the upcoming launch of the COVID-19 Business Pulse Survey to capture the impact of COVID-19 on Small and Medium Enterprises (SMEs) and track recovery. Importantly, IDA's COVID-19 interventions are informed by Independent Evaluation Group (IEG) evaluations of previous WBG crisis responses,[39] as well as

---

[34] These include the Coalition for Epidemic Preparedness Innovations (CEPI), the International Finance Facility for Immunization (IFFIm) and Gavi, The Vaccine Alliance.

[35] A COVID-19 tracker was developed to provide a bird's eye view of developments on the ground and allow IDA to better target its support, glean lessons and track which policies work and which do not.

[36] *Protecting People and Economies: Integrated Policy Responses to COVID-19*. World Bank, June 2020.

[37] The *Somalia* Crisis Recovery Project, which supports recovery of livelihoods and infrastructure in flood- and drought-affected areas as well as builds resilience to COVID-19, is a case in point.

[38] Examples include the *Coronavirus Speaker Series* with the Global Resilient Cities Network, and e-seminars on *Development Policy and COVID-19* which cover topics such as labor and migration, and trade and value chains.

[39] *Crisis Response and Resilience to Systemic Shocks: lessons from IEG evaluations*. IEG 2017. Also see https://ieg.worldbankgroup.org/blog/3-lessons-past-public-health-crises-global-response-covid-19-coronavirus.

good practices for disaster management.[40] These include experiences from the 2007–08 food crisis and the 2008–09 Global Financial Crisis (Box 5).

Box 5. Lessons from IEG Evaluations of WBG Responses to Recent Crises and Systemic Shocks

- Success relied on *well-established country engagements, dialogue and collaborations*. Striking the *right balance between country-specific engagement and global strategy* is important. Crisis response offers an *opportunity to build long-term resilience*—client ownership is essential.
- The WBG rightly *focused on the impact on the poor and vulnerable*, including supporting flexible and targeted social safety nets. Social protection response was generally swift and substantial. *Countries that already developed safety nets scaled up better*, and the Bank was more able to help.
- The WBG generally *responded nimbly to shocks and refashioned some of its instruments* to handle different kinds of crises. More DPFs were provided in crises than during non-crisis periods. There is merit to focus DPFs on sectors directly related to the crisis and to offer countercyclical support, as well as to *focus on fiscal sustainability and fiscal space for future countercyclical needs*.
- The effectiveness of crisis response hinges on *avoiding lags in disbursement*. Speed and flexibility in crises are important but *should not take priority over accountability and monitoring*.

39. **As the crisis continues to unfold, innovations agreed with IDA Participants for IDA19 will position IDA even better to support clients to weather crises and emerge more resilient than before.** IDA19 enables earlier CRW responses to slower-onset crises, namely, disease outbreaks and food insecurity. It will also promote the utilization of CERCs and enhance linkages between CRW usage and subsequent IDA country programming on resilience. The Regional Window will support single-country prevention and preparedness projects that demonstrate strong cross-border spillovers. Furthermore, the PSW will contribute by supporting businesses with short-term targeted interventions including working capital and trade finance support; and by facilitating new investments such as in infrastructure, health and MSMEs, while maintaining an inclusive, climate-smart and gender-focused approach. The new FCV Envelope will help a select group of countries—many of which will be hardest hit by the COVID-19 crisis—to address drivers of FCV and sources of resilience.

40. **Overall, IDA has responded swiftly and effectively since the outbreak to assist its clients and continues to demonstrate excellent value for money for each aid dollar.** The crisis has no historical analogue in the modern era (see Box 6). In short time, IDA has stepped up its support, despite significant operational challenges, while maintaining its commitment to selectivity, quality, transparency and innovation. Creativity and iteration continue, and emerging lessons will further strengthen interventions in IDA19. This extraordinary response has, however, redirected resources intended to advance longer-term development outcomes toward the protection of existing development gains. Sustained IDA support will be essential to help IDA countries develop along a sustainable debt path and toward the Twin Goals and SDGs.

---

[40] *Natural Disaster Response: Lessons from Evaluations of the World Bank and Others*. Evaluation Brief 16 (David Todd and Hazel Todd, 2011).

Box 6. The Crisis in Historical Perspective

There is no analogue to this crisis, but some historical examples may offer perspective.

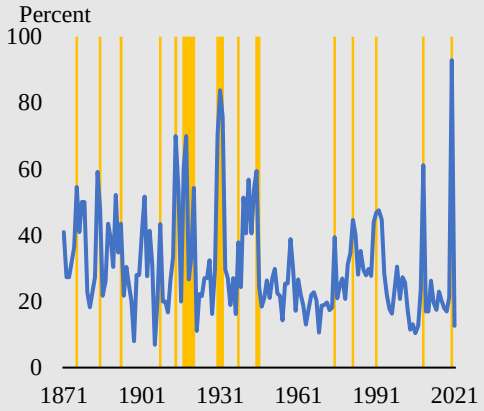
The crisis has triggered the deepest global recession in the modern era (see Figure 9). The recession is also accompanied by a plunge in oil prices, including the steepest one-month decline on record in March 2020. This global recession is also more synchronized than the recessions that accompanied World War II or the Great Depression—not since the start of the Long Depression in the 1870s has there been a larger share of countries experiencing a fall in income per capita in the same year.

Moreover, for poorer countries the impacts of this crisis are likely to be more severe and long-lasting than these previous episodes because poorer countries are now more integrated into the global economy than before. For IDA countries as a group, this would be the first recession since 1981 and the deepest since the inception of IDA.

By way of comparison, the crisis is more severe and widespread than the Asian Financial Crisis (AFC) or the Global Financial Crisis (GFC). Those crises hit IBRD countries hard, but IDA countries were less affected, because many IDA countries were less integrated into international trade and capital markets compared to today. In response to each crisis, the World Bank offered a strong lending surge (see Figure 10). In response to the Asian Financial Crisis, IBRD lending increased by 30 percent in FY98 and FY99 compared with the preceding five years. In response to the GFC, lending increased by 140 percent in FY09 and FY10 compared with the preceding five years.

Comparison may also be made with the 2014-15 Ebola crisis in West Africa. That crisis was confined to *Guinea*, *Liberia*, and *Sierra Leone*, but its impacts were severe, infecting more than 28,000 people, killing more than 11,000 people, and causing economic collapse and socio-economic impacts across the three countries. The crisis resulted in a US$2.2 billion loss in GDP for the three countries, and the medium-term impact caused economic losses of up to US$25 billion for West Africa. During the period of IDA17 (which started on July 1, 2014 at the height of the Ebola outbreak that was declared in March 2014), IDA committed US$1.2 billion to the three countries over the three years, an increase of 82 percent from the previous IDA16 cycle. That $1.2 billion comprised US$482 million from the CRW, $614 million from PBA, and $75 million from the Regional Window.

Figure 9. Economies in Recession



Yellow areas refer to global recessions. The blue line shows the proportion of economies in recession, defined as an annual contraction in GDP per capita. Sample includes 193 countries, though the sample size varies significantly each year. Data for 2020 and 2021 are forecasts.

Figure 10. IBRD Lending in US$ Billion in Response to the AFC and GFC

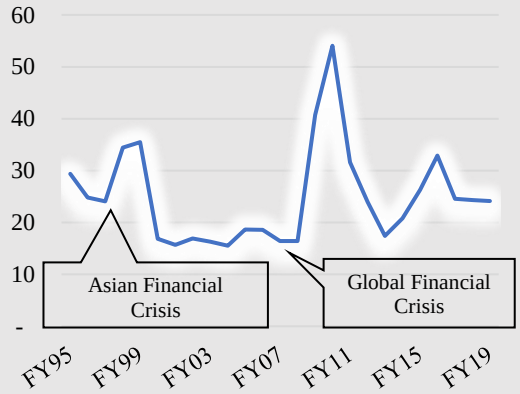
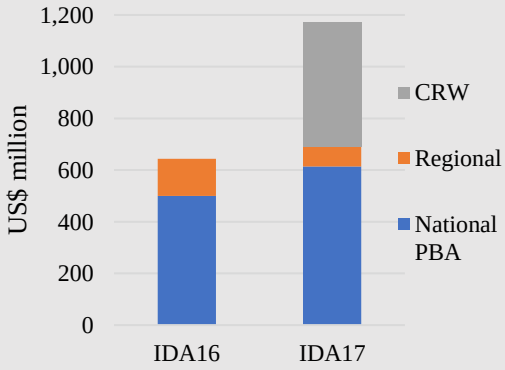


Figure 11. Commitments to Ebola-affected countries (Guinea, Liberia, Sierra Leone)



III. UPCOMING CHALLENGES AND POSSIBLE FUTURE DIRECTIONS

A. Indications of Additional Demand

41. **The crisis is causing a reversal of development gains in IDA countries, and these countries look to IDA for support.** As outlined in Section I, gains in poverty reduction in IDA18 have been lost, and the poverty rate in IDA countries is rising for the first time in more than 20 years. Maternal and child mortality is set to rise. Nearly all children are out of school, with concern that many may not return. Decades of hard-fought gains on gender equality are at risk. Inequality is rising, and the crisis is hitting the most vulnerable the hardest. Government revenues are falling beyond the fall in output. FCV risks are rising, and a food crisis is looming. Meanwhile, the COVID-19 pandemic is still spreading. The crisis will leave lasting scars, and the recovery phase is set to be slower for the poorer IDA countries. Recovering lost ground and restoring momentum toward the Twin Goals and SDGs will require significant resources from all development actors, including IDA. The projected impact could also reduce the likelihood of graduations at the end of IDA19 compared to previous replenishment periods.[41] Furthermore, if downside risks materialize, demand for resources for relief, restructuring, and recovery would increase further. This section discusses the possible financing needs, as well as how this could translate into additional demand for IDA resources.

42. **In the short-term, as outlined in Section II, IDA will frontload more resources into FY21 and continue to re-prioritize the portfolio to support IDA countries to mitigate the immediate impacts of the crisis.** As agreed in April 2020, Management will frontload 43 percent of IDA19 resources into FY21 to make available up to US$35 billion to support the health and social response and cushion the pain of the recession. However, long-term development needs must also be addressed, some of which directly relate to mitigating the negative impacts, protecting hard-fought gains, and strengthening health systems for future resilience. Short-term impacts can quickly become permanent, and short-term policy choices can set back progress on long-term development goals. So sustained support will be key to embedding progress during the restructuring and resilience recovery stages.

43. **Beyond FY21, the exact financing needs are not yet certain, but they will be significant against a backdrop of limited government resources.** As outlined in Section I, IDA countries are constrained by limited fiscal space due to rising health and social sector expenditures, falling output, falling revenue, falling remittances and rising debt vulnerabilities. This situation is further compounded by the sudden reversal of capital flows and uncertain prospects for access to capital markets which will likely translate to exceptionally high financing gaps in IDA countries and increased need for development aid. As background, official global development flows[42] (Official Development Assistance and Other Official Flows net disbursements) to IDA countries over the last five years was around US$379.7 billion, or an average of approximately US$75.9 billion a

---

[41] While the risk of reverse graduations has increased, this can be partially mitigated by allowing temporary access to CRW financing to recent graduates, as currently planned for Moldova and Mongolia.

[42] The sum of Official Development Assistance (ODA) and Other Official Flows (OOF) was calculated as the total of net disbursements at current prices by the official sector at large to the 76 IDA countries over the period CY14-18 (latest data available). https://stats.oecd.org/Index.aspx?DataSetCode=TABLE1# Source: OECD.stat.

year. IDA represents 13 percent of this financing at US$47.9 billion over 5 years (or US$9.6 billion a year but with steady growth in recent years, exceeding US$11.1 billion in 2018). In 14 countries, IDA represents more than 20 percent of development financing.

44. **As presented in the *WBG Approach Paper*, a range of scenarios can illustrate the potential external financing gaps arising from the crisis for IDA countries in FY21 and thereafter.** Table 2 presents a range of outcomes for active IDA countries in a matrix. Considering a range of total crisis-related financing needs of up to 10 percent of GDP in aggregate, and a range of 25-75 percent for the share of these crisis needs that would require external finance, the table shows the resulting annual financing gap in billions of US dollars. For example, assuming a 50 percent share of external financing, the annual financing gap for IDA countries ranges from US$25 billion (for crisis needs equal to 2 percent of GDP) to US$100 billion (for crisis needs equal to 10 percent of GDP). Incremental crisis needs can be expected to decline over time and the resulting decline in the financing gap can be estimated by moving progressively across the table from right to left. <u>However, all expectations at present are that the financing needs of developing countries arising from the crisis will be both exceptionally high in GDP terms and persist over the medium term.</u>[43] To estimate total annual financing needs in full, incremental crisis needs should be added to the pre-crisis baseline for each IDA country.

Table 2: Medium-term Financing Gaps in Active IDA Countries (US$ billions, annual)

Active IDA Countries	Medium-term Crisis Needs (% GDP) 1/			
	2.5%	5.0%	7.5%	10%
External Financing (%) 2/				
25%	12.5	25	37.5	50
50%	25	50	75	100
75%	37.5	75	112.5	150
Total GDP (2018) 2000				

1/ Medium-term Crisis Needs defined as incremental gross financing need (public + private) arising from COVID-19 crisis
2/ External Financing is the share of Crisis Needs requiring external financing.

45. **In past years, IDA tended to finance a significant share of IDA countries' needs.** Furthermore, WBG support for post-disaster financing in previous CRW episodes has historically been around 20-30 percent of all financing.[44] With the above scenarios, IDA will be challenged to play that role with the current level of IDA19 resources.

46. **Information on demand from active IDA countries is still emerging as impacts of COVID-19 are assessed and necessary adjustments to country programs made.** Preliminary

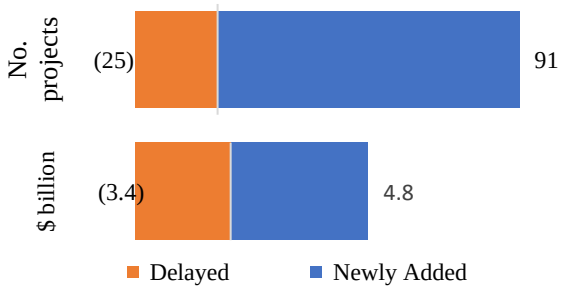
[43] As a point of reference, a sample of 20 EMs experienced an increase in external financing requirements (EFN) of 5 percent of GDP during the 2008-09 GFC and approximately 3 percentage points of this increase has persisted through 2019 (compared to the average over 2003-07). See: IMF Global Financial Stability Report, April 2020.

[44] Based on assessment during IDA18 MTR CRW at the time of Board technical briefings with CRW providing 14 percent of resources, other WBG financing at 21 percent, other donors providing 62 percent and the residual from domestic resources. The figures represent point-in-time snapshots at the time of the respective CRW Technical Briefings to the Board.

information from the ongoing country dialogue shows that demand for IDA financing in FY21 could surpass considerably the annual lending level expected for IDA19 prior to the crisis. AFR expects strong demand for frontloading IDA support in FY21 especially during the first two quarters. At the country level, there are specific spikes in demand. For example, a large number of countries in the AFR region have increased needs which exceed normal annual allocations by a large margin. In South Asia, there is also very strong demand for IDA for FY21 which is well above average delivery in FY18 and FY19. There are similar levels of increased demand across all other regions. Work continues to assess demand and how IDA can continue to play a central role in supporting its clients efforts to respond to the crisis while helping them make progress towards the Twin Goals.

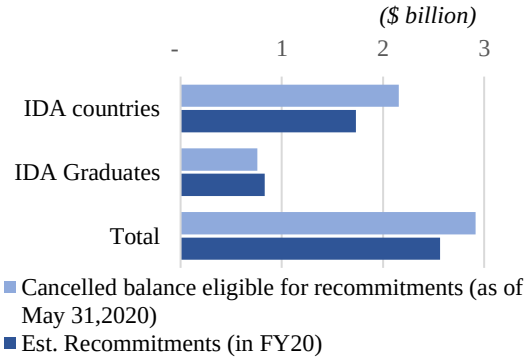
47. **Furthermore, the crisis has changed the IDA pipeline dramatically—long-term development programming that had been considered essential for IDA19 has been delayed to free up resources for crisis response.** IDA countries are delaying a large number of planned IDA operations to FY21 and beyond. Yet many of these operations are still needed to meet longer-term development objectives. Since early-March 2020, about 25 IDA operations in Q4 of FY20 worth around US$3.4 billion have been postponed to FY21 as the pipeline was re-prioritized. During the same period, some 90 new operations were added to the Q4 pipeline in the amount of US$4.8 billion, including COVID-related health, economic and social response projects. In addition, some Q4 operations proceeded but were re-shaped or expanded to support COVID-19 response under the four pillars. Countries have used cancellations more actively to support the expanded Q4 pipeline and fill the resource gap. Up to 30 IDA countries are expected to use canceled balances and recommit around US$2.6 billion in FY20 (including actuals to date). If the process of postponing some of the longer-term priorities continues, the US$3 billion of delayed operations in Q4 of FY20 could translate into significant amounts of required additional resources to support the long-term development agenda.

Figure 12. Q4 Pipeline Adjustments since early March 2020



Source: staff estimates.

Figure 13. IDA Recommitments Estimate (in FY20)



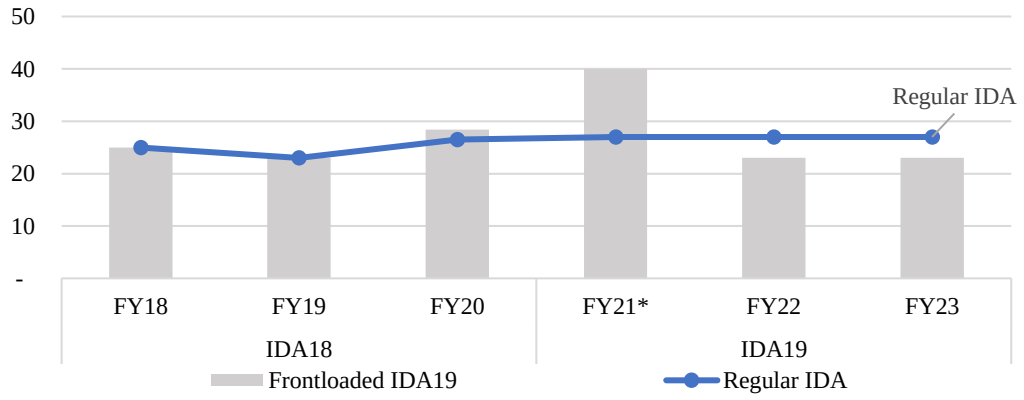
Source: staff estimates

48. **Adequate grant resources will be critical to support response, particularly for FCV and countries at high risk of debt distress.** More than half (38 of 70) of the expected IDA19 active countries already receive all or half of their IDA resources on grant terms. As such, IDA countries will receive close to US$9.8 billion in new grants in FY21 reflecting frontloaded IDA resources. Furthermore, as outlined in Section I, the large fiscal deficits or large debt burdens in

several IDA countries leave them particularly vulnerable to heightened risk of debt distress. Additional cases of debt distress and/or financial instability are possible, which would further increase the need for grants. While IDA's grant allocation framework is designed to support grant eligible countries at moderate and high levels of debt distress on grant terms, these resources are finite and depend on donor contributions to ensure IDA's ability to continue providing concessional support in the future.

49. **Assessed from different angles, the resources available in FY22 and FY23 might not be sufficient to meet demand for IDA financing.** After frontloading 43 percent of IDA19 in FY21, the available resources for FY22 and FY23 would fall to around US$23 billion per year, representing an almost 50 percent drop from the projected level in FY21 and lower than any year during IDA18 (see Figure 14). If US$5 billion of portfolio re-prioritization, including cancellations, is delivered in FY21, there might be little left to reduce the gap beyond FY21. On the other hand, as indicated in this section, it is likely that (i) the financing gap, and IDA's expected share, will be significant; (ii) the preliminary sense of demand from countries outpaces the FY21 frontloading; and (iii) projects financed on critical long-term priorities will continue to be delayed as the crisis response efforts continue.

Figure 14. IDA Delivery and Outlook with Planned Frontloading (US$ billions)



** FY21 frontloaded delivery includes US$35 billion from IDA19 envelope and assumes US$5 billion in cancellations.*
Note: FY22 and FY23 figures are not projections, rather pro rata allocations of existing IDA19 capacity after FY21 frontloading

50. **The financing needs discussed in this section will require action on multiple fronts, including external financing through a sound debt strategy**. IDA can help support good policies in IDA countries in many of those areas. The SDFP will further strengthen IDA's debt-related policy framework through a more proactive and systematic engagement on addressing debt sustainability at the country level. Nonetheless, adequate concessional resources are needed to reduce the likelihood that IDA countries turn to less concessional resources for continued support from FY22 onwards.

B. Implications for IDA's Financial Planning

51. **This preliminary assessment of incremental demand for IDA19 resources calls for a stock-taking of IDA's financial planning and its resources.** This sub-section recaps the

approach agreed with IDA Participants during the IDA19 Replenishment and explores the implications of the COVID-19 crisis on pre-agreed financial planning.

52. **IDA's hybrid financial model provides donors with a very efficient way to use scarce aid resources.** Its success is built upon several key principles to enable long-term sustainability. Under the hybrid model, IDA's financial capacity is driven by strategic choices made at each replenishment which include the level of partner contributions; level of concessionality of the overall financing package determined by the allocation policies and terms of IDA's financial assistance; and size of the replenishment. These choices combine with the health of IDA's balance sheet to set IDA's capacity to scale-up financing to its clients, as it is also key that IDA maintains adequate capital to support risks on its balance sheet and to back market debt issuances. IDA's hybrid financial model thus relies on the combination of strong support from shareholders (see Box 7), confidence from capital markets, and the maintenance of prudent management within agreed operating and financial policies and frameworks.

Box 7. Role of Partner Contributions in IDA's Integrated Financing Framework

Participants affirmed their strong support for IDA and confirmed the importance and continued role of partner contributions in the integrated financing framework. While the changes introduced in the IDA18 financing framework offer a historic opportunity, Participants recognize they also require commensurate joint commitment to address substitution risks – the risks that access to capital markets leads to a reduction in partner contributions. Grant contributions and strong shareholder support will continue to remain a key element of IDA's financial framework, for the proposed integrated business model to successfully leverage funds and be financially sustainable over the long term. In the context of significant 2030 demands and agreed ambitions, donors and clients emphasized the importance and principle of additionality as central to the new model.

Source: IDA18 Replenishment Report at paragraph 141. See also *IDA19 Replenishment Report* at paragraph 165.

53. **Participants to the IDA18 and IDA19 replenishment discussions have consistently emphasized the importance of calibrating replenishment size to ensure that IDA can maintain stable replenishments through to 2030, assuming steady donor contributions.** Starting from IDA18, with a Triple A credit rating, IDA began accessing capital markets, with a strategy of gradual and prudent build-up of debt issuance and a pace of leveraging (see Box 8) that is in line with principles agreed with IDA Participants of steady financing for IDA's clients and no hidden bills for donors. The planned frontloading of FY21 capacity from FY22 and FY23

Box 8. IDA Leveraging Principles

Preserving IDA's ability to continue fulfilling its mission in the future, as well as predictability and stability of financing for clients.

Establishing IDA's ability to service debt without restricting future lending capacity, or creating unexpected future contribution requirements for partners.

Maintaining IDA's ability to adjust its policies at future replenishments, ensuring that decision making today does not pre-commit future funding levels, lending volumes and allocation principles.

Source: IDA18 Replenishment Report at paragraph 137. See also *IDA19 Replenishment Report* at paragraph 160.

involves re-pacing resources within the same replenishment period, and so the financial impacts of this frontloading are largely contained within the IDA19 period and remains in line with agreed financing frameworks and financial risk management principles.

54. **Given the impact on development outcomes (Section I) and the emerging needs beyond FY21 (Section III.A), Management is exploring options to maximize support to client countries to deal with the COVID-19 crisis beyond FY21 in the most cost-effective and financially-prudent way.**

C. Implications for IDA19 Policy Commitments

55. **The IDA19 policy package will help to keep a line of sight of the 2030 Agenda, but the crisis is unfolding in ways that will affect the IDA19 policy commitments.** The five special themes and four cross-cutting issues will help to guide and support IDA countries in their crisis response as well as their process of recovery. This involves support to strengthening debt management to contain vulnerabilities and help IDA countries to put in place the fiscal foundations for fast and sustainable growth. It also involves helping firms and workers adjust to the new normal, putting a premium on the digital economy agenda and agricultural value chains, and building institutional capacity and better governance, especially on core government functions in IDA FCS and infrastructure governance. Similarly, the crisis has added urgency to commitments that empower women and increase access to health care. The crisis does not change existing and looming climate challenges, and the importance of investing in climate smart economic growth. IDA remains on track to meet the target for climate co-benefits, also when taking the COVID-19 response into account. Furthermore, IDA's continued strong commitment to address the needs, vulnerabilities and risks of FCS is exemplified by the recent approval of the US$170 million regional *Lake Chad Region* Recovery and Development Project and the US$176 million Additional Financing to the Multi-Sectoral Crisis Recovery Project for North Eastern *Nigeria* in line with IDA19 policy commitments and the WBG FCV Strategy.

56. **Some IDA19 policy commitments will need to be adjusted in light of the unfolding crisis and the pace and trajectory of recovery in IDA countries.** IDA countries have taken a hard hit already and are moving backwards on key parameters, which in turn may impact IDA's ability to meet some agreed targets. For instance, the projected decline in tax revenues even further beyond the declines in GDP may dampen ambitions to increase tax revenue as a share of that GDP. As IDA countries struggle to cope with the health and economic impacts of COVID-19, there will be realignment of countries' short-term priorities and IDA portfolios, including delay to operations that contribute to the longer-term agenda. Elements of the policy agenda are being recalibrated: for example on parts of the JET agenda, the focus in the short term is shifting from job creation to countering the declines in economic activity and job losses, while at the same time seeking out opportunities to address structural issues to enable a faster and more sustainable recovery. Across themes, the implementation of policy commitments that involve field-based work, longer lead-times and staff deployments will also experience challenges. These operational implications and the recalibration of client priorities are expected to accelerate implementation of some policy commitments, delay some, and necessitate adjustments to others. Management is monitoring this closely and will revert to IDA Participants regarding proposed adjustments.

IV. CONCLUSION

57. **This multi-dimensional crisis is inflicting major and lasting damage on IDA countries.** Much remains uncertain with strong downside risks. Recent months have served to validate the areas of focus of the IDA19 agenda. IDA has mounted a swift and effective response so far. At the same time, that early response has necessarily redirected IDA resources toward the protection of existing development gains, and away from programs otherwise intended to advance the longer-term development agenda, including the ambitious IDA19 package that IDA Participants committed to in December 2019. The crisis calls for an urgent, exceptional response in IDA countries, grounded in the *WBG Approach*, that can sustain into the medium term: certainly, the crisis will affect IDA countries beyond the timing and amount of IDA's short-term FY21 response. Looking forward, it will be critical for IDA to sustain support to IDA countries beyond FY21.

58. **Management will continue to update IDA Participants as the crisis unfolds.**