IDA21 REPLENISHMENT: DISCUSSION NOTE ON VULNERABILITY CONSIDERATIONS IN IDA'S POLICY AND FINANCING FRAMEWORK

Development Finance, Corporate IDA & IBRD (DFCII)

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ACRONYMS AND ABBREVIATIONS

Fiscal Year (FY) = July 1 to June 30
All dollar amounts are US dollars unless otherwise indicated

ACLED	Armed Conflict Location and Event Data Project
AsDB	Asian Development Bank
CAT-DDO	Catastrophe Deferred Draw-Down Option
CDB	Caribbean Development Bank
CPIA	Country Policy and Institutions Assessment
CPGA	Crisis Preparedness Gap Analysis
CPR	Country Performance Rating
CRI	Climate Risk Index
CRW	Crisis Response Window
CRDCs	Climate Resilient Debt Clauses
DSEP	Debt Sustainability Enhancement Program
EMDBs	Emerging Market and Developing Economies
ERF	Early Response Financing
EVI	Economic and Environmental Vulnerability Index
FCS	Fragile and Conflict Affected Situations
FCV	Fragility, Conflict and Violence
GAF	Grant Allocation Framework
GDI	Graduation Discussion Income
GNI	Gross National Income
HAI	Human Assets Index
HCI	Human Capital Index
HDI	Human Development Index
IBRD	International Bank for Reconstruction and Development
IDA	International Development Association
IDB	Inter-American Development Bank
IFAD	International Fund for Agricultural Development
IMF	International Monetary Fund
LIC-DSF	Debt Sustainability Framework for Low-Income Countries
MDB	Multilateral Development Bank
MTR	Mid-Term Review
MVI	Multidimensional Vulnerability Index
PBA	Performance-Based Allocation
PCO	Program for Creditor Outreach
PPR	Portfolio Performance Rating
PRA	Prevention and Resilience Allocation
RECA	Remaining Engaged during Conflict Allocation
SDFP	Sustainable Development Finance Policy
SIDS	Small Island Developing States
SIE	Small Island Economy
SIEE	Small Island Economies Exception
SSE	Small States Exception
SUW	Scale Up Window
TAA	Turn Around Allocation
UCDP	Uppsala Conflict Data Program
WHR	Window for Host Communities and Refugees
WRI	World Risk Index

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EXECUTIVE SUMMARY

i. **IDA countries are extremely diverse and face a myriad of longstanding and emerging vulnerabilities, such as economic and social challenges, climate change, natural disasters, and pandemics, that adversely impact their long-term growth and development.** The 75 economies currently eligible for IDA account for just under one-quarter of the global population but over 70 percent of the world's extreme poor. Twenty-one of these countries are Small States with populations below 1.5 million and are characterized by heightened vulnerabilities attributable to their size, geographical characteristics, economic structure. Thirty-three are on the World Bank list of fragile and conflict-affected situations (FCS), and are marked by institutional fragility, social unrest, and conflict. The increasing frequency and severity of climate change and natural disasters further exacerbate vulnerabilities that IDA countries face. Since 2019, the number of food-insecure individuals in IDA countries has doubled, with these countries now accounting for 92 percent of the world's food-insecure population.[i] Over the past decade, IDA countries have also experienced a rapid buildup in public debt levels, with half of them currently in or at high risk of debt distress.

ii. **This Discussion Note examines IDA's existing framework for addressing vulnerability concerns in its countries.** In general, vulnerability refers to the extent to which individuals, communities, or systems are susceptible to adverse effects from external or internal shocks. The intensity of impact is influenced by the size of the shock (hazard), the degree of exposure, and the capacity to handle and lessen the effects (resilience). For the purposes of this note, we focus on economic, environmental, political, and social vulnerabilities. IDA's multi-pronged approach to address these different sources of vulnerabilities includes: (i) the Performance Based Allocation (PBA) system, which favors countries with lower incomes; (ii) the minimum base allocation that supports Small States; (iii) credits with differentiated financial terms with the most concessional credits and grants reserved for countries with the highest debt vulnerabilities and Small States, and (iv) purpose-driven allocations, which directly address specific vulnerabilities, such as fragility, conflict, natural disasters, pandemics, and economic crises. In addition, financial support is complemented by a policy framework that assists in areas such as debt sustainability (e.g., the Sustainable Development Finance Policy), climate mitigation and adaptation and crisis preparedness, among others. Recently, IDA has broadened its support to vulnerable states by extending the Small Island Economies Exception (SIEE) to non-island Small States, factoring in vulnerability considerations into its reverse graduation framework.

iii. **IDA's existing approach to provide targeted support to IDA countries based on their unique vulnerabilities has proved highly effective.** IDA's financing architecture tailors the timing, form of support, and eligibility criteria to the specific vulnerabilities being addressed, not only channeling resources to persistent and long-term vulnerabilities, but also managing unpredictable and/or concentrated crises. For example, small states receive ongoing and predictable support to address their geographic and demographic conditions, whereas purpose-driven allocations such as the Crisis Response Window and the Fragility, Conflict and Violence (FCV) Envelope allow IDA to channel resources with precision in countries that need them the most and when they are most needed. An alternate approach is to add a composite measure of

[i] World Bank (2024). The Great Reversal: Prospects, Risks, and Policies in International Development Association (IDA) countries.

vulnerability in the PBA formula, but given methodological and data constraints with existing indices, including the wide ranging nature of what constitutes vulnerability (economic, environmental, political, or social), the benefits of such an approach are uncertain.[ii] Compared to this, IDA's current framework appears to be more effective and well-targeted as observed in the higher average per capita allocations to Small States and the large proportion of grants received by them and FCS countries.

iv. **However, due to escalating challenges posed by climate change, rising debt and fragility, IDA countries need additional resources and support to achieve resilient growth.** With rising debt service costs crowding out essential public expenditures, IDA countries face resource constraints for urgent investments in climate mitigation and adaptation, among others. There is a need to increase financial support to IDA countries while simultaneously providing technical assistance for capacity building and institutional strengthening, reinforcing the need for a strong and robust IDA21. IDA21 will sustain its engagement with crisis preparedness building on IDA20's analytical efforts, and the recently approved enhanced Crisis Preparedness and Response Toolkit. Options for strengthening this framework further are being explored by reviewing the eligibility criteria for the FCV Envelope to account for diverse FCS situations, not captured in existing metrics. In addition, in the future, to enhance the effectiveness and targeting of its existing framework, IDA may explore the use of metrics designed to capture specific vulnerabilities, e.g., for eligibility for a specific purpose-oriented allocation or in the determination of concessionality.

[ii] This issue was previously explored by the World Bank in 2010 and 2018. The 2010 analysis indicated that adding vulnerability into the PBA formula would have several distributional implications and would reduce the performance orientation of the PBA system. The 2018 analyses concluded that IDA provides substantial concessional resources to most middle-income Small States through specific provisions in its eligibility, allocation, and financing frameworks and that a new vulnerability index would not necessarily be beneficial to all Small States.

I. INTRODUCTION

1. **IDA countries are extremely diverse and face a myriad of challenges and vulnerabilities that adversely impact their long-term growth and development.** Some of these vulnerabilities are longstanding economic and social challenges. Others, such as climate change, natural disasters, and pandemics, are newer and increasing in severity over time. Of the 75 existing IDA eligible countries,[1] nearly two-thirds are classified as low and lower-middle income,[2] and their estimated 2022 poverty headcount ratios at the $2.15 a day poverty line range from 0.1 (Tuvalu) to 80.9 (Madagascar).[3] 21 of these countries are Small States with populations below 1.5 million, and 33 are on the World Bank list of fragile and conflict-affected situations (FCS) (Annex 1).[4] Small States are highly vulnerable to economic and climate-related shocks due to their size, geographical characteristics, and economic structure. IDA FCS countries are home to 324 million people living in extreme poverty and face rising fragility, macroeconomic risks, impact of climate change, health and nutrition challenges, and food crises. After a doubling of their food insecure populations since 2019, IDA countries account for 92 percent of the world's food-insecure people.[5] In terms of debt vulnerabilities, the share of IDA countries classified at high risk of external debt distress or in debt distress increased from 31 percent in 2012 to 54 percent by the end of 2023.

2. **This Discussion Note, intended to inform discussions on vulnerability, examines IDA's existing framework for addressing vulnerability concerns and presents steps being taken to strengthen this approach, including as part of the IDA21 Replenishment.** While IDA has long recognized the specific needs of its more vulnerable member states within its financing framework, the onset of new global challenges, poly-crises, and escalating impact of climate change have heightened vulnerability concerns in many IDA countries. These developments have prompted discussions, including as part of the WBG Evolution, on how IDA is addressing vulnerabilities through its policy and financing framework. This note, which is for information only, seeks to contribute to those discussions. Management welcomes Participants' feedback on the Note while no guidance is being sought on any specific proposal at this stage.

II. IDA'S EXISTING FRAMEWORK TO ADDRESS VULNERABILITY

3. **IDA's existing framework to address vulnerability is comprehensive and well-structured and has evolved over the years to respond to the changing vulnerabilities and challenges of IDA countries.** In general, vulnerability refers to the extent to which individuals, communities, or systems are susceptible to adverse effects from external or internal shocks. The

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1 To receive financing from IDA, two key criteria are taken into consideration – GNI per capita below an established threshold ($1,315 in FY24) or limited creditworthiness to borrow on IBRD and market terms and therefore a need for concessional resources to finance their development program.

2 There are eleven upper-middle income countries in IDA: Guyana, St Lucia, Maldives, Grenada, St Vincent and the Grenadines, Dominica, Marshall Islands, Tuvalu, Kosovo, Fiji, and Tonga – based on 2022 GNI per capita.

3 World Bank estimates.

4 FY24 List of Fragile and Conflict-affected Situations, World Bank.

5 World Bank (2024). The Great Reversal: Prospects, Risks, and Policies in International Development Association (IDA) countries.

intensity of impact is influenced by the size of the shock (hazard), the degree of exposure, and the capacity to handle and lessen the effects (resilience). Broadly, and for the purposes of this note, vulnerabilities can be economic, environmental, political, or social in nature. IDA's current framework, developed over past Replenishment cycles, addresses these vulnerabilities as related to low income, risk of debt distress, fragility and conflict, climate change and natural disasters, public health emergencies, disease outbreaks, economic crises, and food insecurity, small economic size, and migration. IDA uses a multipronged approach to do this, including *modified access*, *allocations* – both *core country allocations* and *enhanced volumes* within that system, through *specialized, purpose-oriented windows*, preferential *financing terms,* and *policy support*.

A. Allocation and Volumes: Performance Based Allocation

4. **IDA's financing architecture represents a robust and efficient framework for allocating resources through the Performance-Based Allocation (PBA) system that provides unearmarked support to the poorest countries.** IDA allocates the bulk of its resources through the PBA system, based on countries' performance in implementing policies that promote economic growth and poverty reduction, assessed through the Country Performance Rating (CPR). This is informed by the Country Policy and Institutional Assessment (CPIA) ratings and the Portfolio Performance Rating (PPR), and based on financing needs, assessed by gross national income (GNI) per capita,[6] and population size. In addition, all active IDA-eligible countries receive a fixed minimum allocation, known as the base allocation (set at SDR15 million since IDA18), needed to meet the fixed costs of country engagement and maintain an effective country program, particularly in Small States, several of which are also characterized as FCS.

5. **The PBA system takes into account the level of income per capita, which is a key driver of many socio-economic vulnerabilities and adversely impacts countries' ability to build resilience.** While overall development encompasses more than just economic factors, many social and non-monetary indicators such as life expectancy at birth, mortality rates of children, and school enrollment rates are strongly correlated with income per capita and reflective of socioeconomic vulnerabilities.[7] In addition, countries' resilience i.e., ability to cope with and recover from shocks is also linked to income per capita. Thus, GNI per capita, as used in the PBA system, is a useful and readily available indicator to proxy for vulnerabilities associated with lower levels of economic development.

6. **However, while GNI per capita is an important and useful measure, it does not capture exposure to shocks and other sources of vulnerabilities.** These vulnerabilities can stem

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[6] Countries with lower GNI per capita receive a higher allocation (i.e., a 1 percent decrease in a country's GNI per capita leading to a 0.125 percent increase in IDA allocations to the country, all else remaining constant). Population affects allocations positively, with a 1 percent increase in population resulting in roughly a 1 percent increase in allocation (except for capped blend countries), all else remaining constant. The CPR exponent of the PBA formula was reduced from 5 to 4 in IDA17 and to 3 in IDA18 to increase the poverty-orientation of the regular PBA system and increase IDA's engagement in the poorest countries, notably the broader group of FCSs, most of which have low per-capita Gross National Income (GNI) levels, while preserving the principle of performance orientation in the allocation system.

[7] WDR 1991 points to a strong relationship between income growth, education levels and declines in infant mortality (World Bank "World Development Report 1991: *The Challenge of Development*" Oxford University Press, New York).

from factors such as a country's size, geographic conditions, economic structure, fragility and political context. For example, due to their geography, Small States are more susceptible to environmental and exogenous shocks than larger economies despite having relatively higher incomes per capita. Their ability to recover can also be limited, for e.g., due to remoteness or high costs associated with infrastructure development. Additionally, countries with low economic diversification are more vulnerable to trade shocks, which can often increase macroeconomic instability and raise debt risks, even for countries with higher income levels.

7. **Recognizing the different types of vulnerabilities that countries are exposed to, IDA has over time developed a comprehensive framework that accounts for different sources of vulnerabilities in IDA countries.** The following sub-sections discuss various aspects of IDA's financing framework that address specific sources of vulnerabilities countries face and the tailored support provided to help mitigate their impact.

B. Financing Terms: Grant Allocation Framework

8. **IDA's Grant Allocation Framework (GAF) prioritizes grants for countries with lower incomes, smaller size and higher debt vulnerabilities that need grants the most.** While most of IDA's financing is concessional and includes some grant element,[8] financing terms are differentiated among various groups of IDA borrowers, with the most concessional financing or grants reserved for the poorest and the most vulnerable IDA countries. The use of grants was initially introduced in IDA13, and since IDA14, grants have been primarily based on the countries' income, lending eligibility, Small State status, and risk of debt distress, as measured through the Debt Sustainability Framework for Low-Income Countries (LIC-DSF). The LIC-DSF classifies countries in four categories of risk of external debt distress: low, moderate, high, and in debt distress. For IDA-only countries, the GAF translates the risk of external debt distress into the financing terms of IDA allocations, with the grant element of IDA financing rising progressively as the risk of debt distress increases. Under the GAF, IDA provides 100 percent of its country allocations in the form of grants to IDA-only countries (those below the operational cut-off and even higher income IDA-only Small States) rated at high risk or in debt distress.[9] IDA-only countries at moderate risk of debt distress receive highly concessional 50-year credits whereas IDA-only Small States at moderate risk of debt distress, receive 50 percent grants and 50 percent credits.

9. **Grants provide IDA countries with elevated debt risks access to critical financing, without adding to their debt obligations.** Over time, given the deterioration in IDA countries' debt position, the share of grant financing in each replenishment has been increasing. In IDA19 grant financing reached a peak of 34 percent of all commitments, reflecting IDA's effort to help the poorest countries recover from the pandemic, compared to an average of 20 percent of all IDA commitments in IDA13-15. Thus far in IDA20, grant financing represents about a quarter of all commitments (until end Dec 2023) compared to an ex-ante expected share of around 18 percent.

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8 Resources under the Scale-up-Window (SUW) are provided on non-concessional IBRD terms.

9 In addition, the Window for Host Countries and Refugees (WHR) continues to include a provision to provide 50 percent of support on grant terms in low and moderate risk of debt distress countries including in blend and gap countries subject to a LIC-DSF.

[10] Of the 42 IDA-only countries in FY24, 24 countries receive 100 percent of their allocations as grants and 2 countries (Vanuatu and Solomon Islands) receive 50 percent of their allocations as grants. Small States and FCS countries are disproportionately represented in the recipients of grants, as 21 of the 26 grant receiving countries are Small States and/or FCS.

C. Volumes: Fragility, Conflict and Violence

10. **As part of overall Country Allocations, the Fragility, Conflict, and Violence (FCV)[11] Envelope provides additional resources on top of the PBA by taking into account vulnerabilities in terms of fragility in eligible countries.** Recognizing FCS challenges in IDA countries, IDA19 increased financing to IDA FCS countries by introducing the FCV Envelope. The Envelope expanded and refined the existing financing toolkit available to IDA FCS countries,[12] and introduced a formal eligibility process and a strong incentive and accountability structure to scale up IDA's support to these countries. Resources from the Envelope are provided through three separate allocations which align with the World Bank Group FCV Strategy: (i) the *Prevention and Resilience Allocation (PRA)* provides support for countries at risk of escalating into high-intensity conflict or large-scale violence, (ii) *Remaining Engaged during Conflict Allocation (RECA)* enables IDA to maintain a base level of engagement in countries that experience high-intensity conflict and have extremely limited government capacity, and the (iii) *Turn Around Allocation (TAA)* supports countries emerging from conflict or social/political crisis and where there is a window of opportunity for IDA to either re-engage or intensify engagement to support the transition out of fragility and build resilience. The fourth pillar of the FCV Strategy is mitigating FCV spillovers – this is supported by IDA's Window for Host Communities and Refugees (WHR). Countries eligible for the FCV Envelope are required to recalibrate their portfolios so that programming is focused on the drivers and impacts of FCV, i.e., address the vulnerabilities that are adversely impacting their development. In addition, for the PRA and TAA, Governments also commit to annual milestones that measure progress against their own prevention and transition strategies.

11. **FCV Envelope resources are significant and allow IDA to respond with agility and precision to the specific FCV challenges of eligible countries, without undermining the key tenet of performance in the PBA formula.** The allocations provide a top-up to a country's PBA by 75 percent ($700 million cap per country per replenishment) in the case of the PRA, by 125 percent for the TAA ($1.25 billion cap per country per replenishment), and a floor allocation based on a CPR of 2.5 ($300 million cap per country per replenishment) for the RECA.[13] FCV Envelope allocations have the same composition and financing terms as those of a country's PBA allocation

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[10] Grant financing is lower in IDA20 compared to IDA19 due to change in financing terms for IDA-only countries at moderate risk of debt distress.

[11] FCV refers to the challenge of fragility, conflict, and violence, regardless of classification as Fragile and Conflict affected Situations (FCS). The term FCS is used to refer to countries on the WBG List of Fragile and Conflict affected Situations.

[12] The exceptional regimes under IDA18 include the post-conflict regime, Risk Mitigation Regime, and Turn Around Regime and the Post-conflict regime phase-out applicable to South Sudan. *Mid-term Review of the Operationalization of the Fragility, Conflict and Violence (FCV) Envelope. September 2021.*

[13] RECA assures a minimum base allocation, subject to an upper RECA limit of $300 million, per country, per replenishment. If the country's CPR is 2.5 or below, its PBA is calculated on the assumption that its CPR is 2.5 (thus creating a 'floor' allocation). *For further details, see: Implementation Guidelines for the FCV Envelope.*

and tend to be on grant terms given the fragile nature of the recipient countries and their high debt distress ratings. Aided by the FCV Envelope, IDA commitments in FCS countries increased threefold from IDA16 to IDA19, reaching 41 percent of total IDA resources.[14] As of Q3 FY24, $3.1 billion from the FCV Envelope has been allocated to thirteen countries: Burkina Faso, Burundi, Cameroon, Chad, Democratic Republic of Congo, Mali, Mozambique, and Niger (PRA), South Sudan and Republic of Yemen (RECA), Central African Republic, The Gambia and Somalia (TAA).

D. Volumes: Crisis Response Window

12. **The Crisis Response Window (CRW) is an important complement to Country Allocations and provides dedicated additional resources to help vulnerable countries respond to the impact of natural disasters, public health emergencies and economic crises.** The CRW establishes a systematic approach in IDA for crisis response; provides additional and predictable financing to IDA-eligible countries hit by crises; and enhances IDA's capacity to effectively participate in crisis response efforts. The scope of the CRW has steadily broadened over time – a pilot CRW was introduced in 2009 following the global financial crisis, and a permanent CRW was created in IDA16 to move from an *ad hoc* approach to "exceptional crises" to a more structured approach. While the CRW was initially designed to respond to severe economic crises affecting multiple countries and major natural disasters, it was widened in IDA18 to include public health emergencies. In addition, financing was expanded to promote resilience through crisis preparedness and response. New instruments were added by introducing a Catastrophe Deferred Draw-Down Option (CAT-DDO) for IDA countries, in response to the demand for contingent financing mechanisms. In IDA19 the CRW was broadened further to respond to early slow-onset crises from disease outbreaks and food insecurity through an Early Response Financing (ERF) framework. In principle, all IDA countries are eligible for CRW support and the terms of CRW financing are the same as those for PBA. Nevertheless, a country's access to the CRW depends on specific circumstances, including the magnitude of the impact of the crisis, the country's access to alternative sources of financing (including IBRD), and the country's absorptive capacity. For the ERF, eligibility includes a requirement for having costed response plan and preparedness plan in place.

13. **Consistent with the broadening scope and coverage of the CRW, CRW funding increased over time, from $2.0 billion in IDA16 to $3.3 billion in IDA20.**[15] With the ongoing poly-crisis driving demand, 76 percent of the CRW's IDA20 envelope was allocated in the first 21 months of IDA20 – specifically 72 percent of the CRW's support for severe crises resources and nearly 90 percent of the ERF were allocated (to both Small States and larger borrowers) during

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[14] In IDA19, the FCV Envelope provided $5.4 billion in additional country allocations to 13 eligible countries. Almost two-thirds of the FCV Envelope allocations in IDA19 (62 percent) were on grant terms.

[15] (i) Delivering Development Results: A Retrospective Review of IDA's Sixteenth Replenishment World Bank, 2015), (ii) For IDA20, the amount does not include CRW+ resources.

this period.[16,17] Support for severe crises resources helped finance flood responses in Pakistan and Mauritania, drought responses in Ethiopia, Yemen, and South Sudan, and cyclone responses in Mozambique and Malawi. An allocation was made for a cholera outbreak in Malawi, while Cabo Verde and Benin included CAT-DDOs in their DPF operations. Previously, in IDA19, the CRW provided $2.1 billion to support crisis responses in 20 countries and 54 percent of CRW commitments were grants. Most recipients were highly vulnerable IDA-only countries –15 were FCS countries, four were Small States, including small island states in the Pacific such as Tonga and Fiji, and over 60 percent of CRW resources were provided to countries in Africa.

14. **In addition to supporting immediate crisis response efforts, operations financed by the CRW include components or features designed to help prevent future crises or to mitigate their economic and social impact**. Under the 'build back better' approach, CRW resources have supported construction of multi-hazard resilient infrastructure (Pakistan, Mozambique), establishment of resilient food systems (Tajikistan), and development of food security crisis preparedness plans (all ERF recipients to date).

E. Access, Financing Terms and Volumes: Small States

15. **Recognizing the unique development challenges of Small States, since 1985, the Small Island Economies Exception (SIEE) has provided Small Island Economies (SIEs) with per capita incomes above the IDA operational cut-off, access to IDA resources.[18]** Countries are granted the Exception once their per capita income crosses the IDA operational cut-off and it allows them to remain eligible for the highly concessional loan terms that IDA offers – Small Economy Terms with 40-year maturity and a 10-year grace period. The Exception allows SIEs that are in principle Gap countries to remain classified as IDA-only countries, thus potentially becoming eligible for IDA grants depending on their risk of external debt distress based on the LIC-DSF. In 2019, the SIEE was revised to allow IBRD-only SIEs to be eligible for the exception,[19] as a result of which, Fiji was granted the exception effective 1st July 2019. At present, seventeen SIEs with a GNI above the IDA operational cut-off receive special treatment from IDA

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[16] The total allocation includes a provisional allocation to reflect the CRW's contribution to operations including CAT-DDOs.

[17] Strong demand for CRW resources at the outset of IDA20 led to the introduction of the IDA Crisis Facility, including additional crisis financing through the CRW+. Allocations of CRW+ resources will be reported separately, following the approach outlined in the April 19, 2024 Note to *IDA Partners " Update on the Status of the IDA Crisis Facility.*

[18] IDA (1985) *Terms of Lending to Small Island Economies Graduating from IDA*. November 1985. Washington, D.C.

[19] Four criteria were defined for an IBRD-only SIE to be reclassified as an IDA-eligible country: (i) its per capita income is at or below the IBRD Graduation Discussion Income (GDI), (ii) it is highly vulnerable to natural disasters or long-term impact of climate change, (iii) it has limited creditworthiness for accessing commercial credit, and (iv) its access to IBRD resources is constrained by creditworthiness or affordability considerations. High vulnerability to natural disasters and climate change is determined using three indices (the Global Climate Risk Index (CRI), the World Risk Index (WRI), and the Economic and Environmental Vulnerability Index (EVI). *IDA18 Post-Mid-Term Review Amendments, Review of the Small Island Economies Exception and IDA18 Exceptional Allocation to Jordan and Lebanon, IDA/R2019-0062/1, April 2019.*

under the Exception.[20] Of these, six are Blend countries and IDA-only Countries that are eligible for grants under IDA's grant allocation framework. The GNI per capita income of SIEs ranges from $1,610 (Comoros) to $11,160 (St. Lucia). Under IDA18, favorable lending terms granted to SIEs were extended to all IDA countries classified as Small States. This benefitted four IDA-eligible Small States—Bhutan, Djibouti, Guyana, and Timor-Leste.

16. **In addition, Small States have benefitted significantly from increases in the base allocation, particularly in IDA18.** As mentioned, IDA provides a base allocation to countries, seen as the minimum amount necessary to maintain country engagement. The base allocation is fixed and invariant to population size. As such, Small States' core country allocations are far larger than they would be if the PBA formula were applied in isolation. To support Small States, the base allocation was increased from an annual SDR1.5 million in IDA15, to SDR3.0 million in IDA16, SDR4.0 million in IDA17, and was nearly quadrupled to SDR15 million in IDA18.[21] It has since remained at the same level and constitutes the bulk of IDA financing to Small States (four-fifths in FY.

F. Access: Graduation Decisions

17. **IDA maintains a flexible and holistic multistage graduation process, which relies on careful analysis of country specific conditions.** Typically, the transition from IDA to IBRD process is gradual and proceeds as follows: (i) *IDA-only to Gap* for countries above the IDA operational cut-off for over two years but not yet deemed creditworthy for IBRD financing; (ii) *IDA-only or Gap to Blend* for countries which have a positive creditworthiness assessment by IBRD (the assessment needs to be requested by the country),[22] and (iii) *Blend to IBRD-only* for countries that are deemed as no longer eligible for IDA borrowing following a detailed assessment of country specific factors. Over the years, 36 countries have graduated from IDA.[23]

18. **Flexibility in graduation decisions helps account for vulnerabilities in countries even once they exceed the per capita income cut-off.** Given the fragility and volatility of economic and political progress in many IDA countries, graduation is based on a careful case-by-case evaluation of a country's capacity to sustain the move from concessional to non-concessional or market-based sources of financing. The multistage approach also allows countries to gradually adjust to tighter terms of financing as they move through different stages of the transition. Consequently, there is no mechanical formula that sets a timetable for graduation from IDA or

[20] Cabo Verde, Comoros, Dominica, Fiji, Grenada, Kiribati, Maldives, The Marshall Islands, Micronesia, Fed. St, Samoa, Sao Tome and Principe, Solomon Islands, St. Lucia, St. Vincent and the Grenadines, Tonga, Tuvalu, Vanuatu.

[21] IDA15: IDA's Performance-Based Allocation System: Simplification of the Formula and Other Outstanding Issues; IDA16: IDA's Performance Based Allocation System: Review of the Current System and Key Issues for IDA16; IDA18 Replenishment Final Report: Towards 20230: Investing in Growth, Resilience and Opportunity. World Bank, 2017.

[22] Creditworthiness assessments consist of an evaluation of eight key components of creditworthiness: (i) political risk; (ii) external debt and liquidity; (iii) fiscal policy and public debt burden; (iv) balance of payments risks; (v) economic structure and growth prospects; (vi) monetary and exchange policy; (vii) financial sector risks; and (viii) corporate sector debt.

[23] An additional 10 countries graduated but later reverse graduated and currently remain IDA borrowers. List available here: *https://ida.worldbank.org/en/about/borrowing-countries/ida-graduates.*

dictates the length of the transition phase. This depends on several factors and individual country circumstances, including but not limited to a country's macroeconomic outlook, risk of debt distress, vulnerability to shocks, institutional constraints, level of poverty and social indicators and access to finance.

G. Policy Support: IDA20 Policy Architecture

19. **IDA20's policy framework, as with past replenishments, aims to support IDA countries to overcome their most pressing current and future challenges and vulnerabilities.** For example, IDA20 adopted an integrated approach to crisis preparedness, with the aim of boosting support in core operations. The initiative is a Cross-Cutting Issue in IDA20's policy architecture, embedding commitments across the Human Capital, Climate, Fragility Conflict and Violence and Jobs and Economic Transformation Special Themes. In addition, a standalone policy commitment, envisioned as a one-time push in support of the building back better agenda, requires IDA to provide technical and financial support for crisis preparedness in all IDA countries with an active program, informed by appropriate crisis preparedness assessments.

20. **As of the December 2023 Mid-Term Review (MTR) of IDA20, an operational definition of crisis preparedness has been developed and this is being used to track the standalone policy commitment**.[24] Reflecting IDA countries' diverse vulnerabilities, varying operational contexts and capacities, and IDA's country-driven model, the definition encompasses both crisis-specific and shock agnostic efforts. IDA had marked solid progress on the policy commitment by the MTR. Compliance with both elements of the commitment exceeded 70 percent, and Management was able to project at least 90 percent compliance, and possibly higher, by the end of the cycle. The push has been supported with expanded incentives to invest in crisis-preparedness instruments such as the Catastrophe Deferred Drawdown Options and the Contingency Emergency Response Components, which have served as useful instruments for IDA countries responding to crises including natural disasters.[25]

21. **Similarly, building on efforts to mainstream climate during IDA16 through IDA19 cycles, IDA20 aims to scale and strengthen climate policies and investments.** In IDA20, with a commitment of alignment with the Paris Agreement, an ambitious target of 35 percent climate finance target over the cycle, and an intensified focus on adaptation, and crisis preparedness, IDA offers a strategic approach to scaling climate investments.[26]

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[24] Crisis Preparedness refers to the capacity of governments, businesses, and communities to effectively anticipate, swiftly respond to, and cope with the impacts of crises. It covers ex-ante activities that help governments to better anticipate and prepare for a crisis before it hits, therefore reducing the overall socioeconomic impact of future crises and building resilience. For additional details, see: *IDA 20th Replenishment Mid-Term Review: Note on Operational Definition of Crisis Preparedness and a Crisis Preparedness Financing Tracking Indicator,* December 2023.

[25] In FY23, IDA supported 17 countries integrated adaptive social protection system in their national systems and helped 48 countries (including 17 FCS countries) institutionalize disaster risk reduction and financed $5.7 billion of commitments with disaster risk management co-benefits.

[26] Under IDA20, there are dedicated Policy Commitments (PC) on Pandemic Preparedness and One health. PC1 (revised) on Pandemic Preparedness states: Support at least 20 IDA countries to strengthen inclusive health security and advance universal health coverage by building countries' capacity to prepare, prevent, detect and

22. **In IDA20, through the Debt Cross-Cutting Issue and SDFP, IDA is supporting countries address public debt vulnerabilities in a comprehensive and integrated manner**. To help countries' address debt-related challenges for long-term growth and macroeconomic stability, IDA provides sustained support to countries through the Sustainable Development Finance Policy (SDFP). The SDFP, through its two pillars – the Debt Sustainability Enhancement Program (DSEP) and the Program of Creditor Outreach (PCO) – aims to incentivize IDA countries to move toward transparent and sustainable financing and to further enhance coordination between IDA and other creditors in support of countries' reform efforts. The SDFP has contributed to bringing greater focus to debt vulnerability issues in the policy dialogue and supported clients in strengthening debt transparency, debt management, and fiscal sustainability.

23. **While IDA's financial support to operations is its most visible aspect, operational delivery builds on a wealth of analytical and knowledge products to ensure that financing is used to best effect**. IDA's broad cross-sectoral expertise and global reach allow it to provide an extensive range of support such as advisory services, risk assessments, and project design across multiple sectors for effective interventions. In addition, IDA's strong country presence enables it to complement global expertise with local knowledge, especially in IDA FCS countries and Small States where best-fit solutions are critical.

III. ADEQUACY OF IDA'S EXISTING FRAMEWORK TO ADDRESS VULNERABILITY CONCERNS IN IDA COUNTRIES

24. **As the nature and source of vulnerability can vary, the timing, form of support and eligibility criteria for any intervention should be aligned with the client countries' specific vulnerability.** For instance, if there is a high probability of exposure to a particular risk or shock, and the aim is to mitigate its effects, intervention at the beginning, such as at the start of an IDA cycle, is appropriate. In contrast, when the shock's occurrence is low or unpredictable, or the aim is to support adaptation, a post-event intervention is more suitable. For more enduring vulnerabilities, support should be more sustained and provided in the form of enhanced access to resources, more concessional financing terms, or a larger allocation through a top-up. For a post-event intervention, a targeted lump-sum transfer could be provided to offer much-needed liquidity to countries facing a crisis. Similarly, the eligibility criteria used to determine additional support can also vary depending on the vulnerability being addressed – in some cases, it may need to be more stringent and quantitatively determined, and in other cases, it may need to be more adaptable and evaluated on a case-by-case basis.

25. **Given this, IDA tailors the instrument type and eligibility criteria based on each vulnerability or risk, ensuring its support meets the unique needs of affected countries.** For instance, given the enduring nature of their geographic and demographic conditions, Small States require ongoing and predictable support. Thus, support to Small States (concessional financing

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respond to the threat posed by pandemics and other health emergencies; PC7 on One Health states: "To strengthen health security by improving pandemic preparedness and prevention at the nexus of human, animal, and ecosystem health, including zoonotic diseases and anti-microbial resistance, support at least 20 IDA countries to mainstream One Health approaches." Currently, 12 countries are being supported under PC1 and 13 are being supported under PC7.

terms, the minimum base allocation and special access to IDA resources via the SIEE) are all determined at the beginning of the IDA cycle. The eligibility criteria for the SIEE includes both qualitative and quantitative criteria to assess the country's access to financing and creditworthiness, vulnerability to natural disasters, climate change and income.[27] For FCS countries, the more dynamic nature of fragility and conflict necessitates flexible financial mechanisms. Thus, the FCV Envelope is structured to provide a pre-determined allocation in each IDA cycle which are then provided through three distinct allocations, each designed for different phases of an ongoing conflict or transition situations. Each allocation comes with specific eligibility criteria that includes a metric to determine the phase of conflict and whether the country has a specific strategy or plan to mitigate the conflict situation.[28] On the other hand, the CRW provides additional resources to *any* IDA country experiencing a crisis. This approach recognizes that all IDA countries are exposed to economic, climate, and health shocks, albeit to varying degrees. As a post-crisis financing mechanism, the CRW employs ex-post criteria that consider the specific circumstances faced by the IDA country, including the magnitude of the crisis, the country's access to alternative financing sources, and its ability to deploy its own resources.[29]

26. **Addressing vulnerabilities also requires sustained policy support**. For countries with elevated debt vulnerabilities, the SDFP is one such instrument. Given the changing nature of debt risks, eligibility is based on an annual screening of debt-related vulnerabilities and countries with elevated debt risks (as determined by a debt sustainability analysis) prepare PPAs in areas of debt management, debt sustainability and fiscal sustainability. These actions are intended to be grounded in strong diagnostics, to be programmatic in their approach and to lead to sustained policy and institutional change.

27. **The tailored approach to addressing vulnerability has resulted in a significantly higher provision of some of IDA's most concessional resources, including grants, to FCS countries and Small States.** From IDA16 to IDA19, total commitments to Small States almost quadrupled from $653 million to $2.5 billion, while commitments to non-Small States grew by 33

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27 Given coverage and methodology concerns in individual vulnerability indices, three indices are used to measure vulnerability to natural disasters and climate change: the Climate Risk Index (EVI), the World Risk Index (WRI) and the Economic and Environmental Vulnerability Index (EVI) – supplemented as necessary with other information if the country is not covered by any of the indices. If a country falls in the highest or second-highest quintile of vulnerability as measured by the CRI or EVI or classified as "high risk" or "very high risk" by the WRI, it will have met the vulnerability criterion for entry/re-entry. *IDA18 Post-Mid-Term Review Amendments, Review of the Small Island Economies Exception and IDA18 Exceptional Allocation to Jordan and Lebanon, IDA/R2019-0062/1, April 2019.*

28 Eligibility criteria for the three allocations include: (i) a quantified indicator that identifies countries in different stages of conflict using the Armed Conflict Location and Event Data Project (ACLED) and/or the Uppsala Conflict Data Program (UCDP) (PRA and RECA), (ii) a Government led strategy to reduce the risks of conflict or violence (PRA or TAA) with corresponding milestones, (iii) a CPIA threshold (2.5 and below for RECA, 3.0 for TAA), or (iv) in the case of TAA, a Country Partnership Framework (CPF) or Country Engagement Note (CEN) that makes a compelling case for WB support to the Government's reform agenda. *FCV Envelope Implementation Guidelines, IDA20.*

29 In addition to criteria for qualifying crises, the CRW also includes criteria for determining a country's eligibility to receive CRW support and the size of the allocation. *CRW Implementation Guidelines, IDA20.*

percent, from $52 billion to $69 billion.[30] Similarly, for FCS countries, there was a fourfold increase in commitments over the same period – from $7.7 billion to $30.3 billion, but for non-FCS countries, there was a *decrease* of 9 percent from $45 billion to $41 billion.[31] For Small States, average per capita commitments tripled from $89.5 in IDA16 to $276.0 in IDA19 while for non-Small States, they increased from $18.2 to $39.4 over the same period (See Figure 3.1 and Figure 3.2). For FCS countries, during IDA16, average per capita commitments stood at $18.4 and $18.3 for non-FCS countries but by IDA19, per capita commitments to FCS countries had increased to $37.6 while those for non-FCS countries had increased to $43.1.[32,33] For both FCS countries and Small States, the proportion of grants is significantly higher than for non-FCS countries and non-Small States, underscoring IDA's consideration of the heightened debt risks faced by FCS countries and Small States.

Figure 3. 2. Per Capita Commitments for FCS and Non-FCS Countries ($/capita)

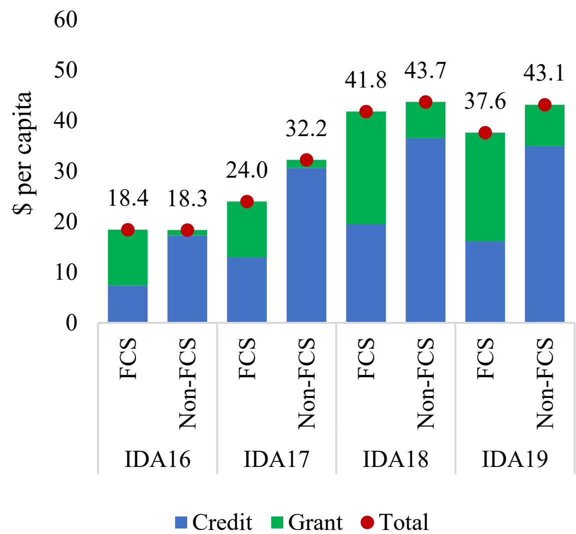
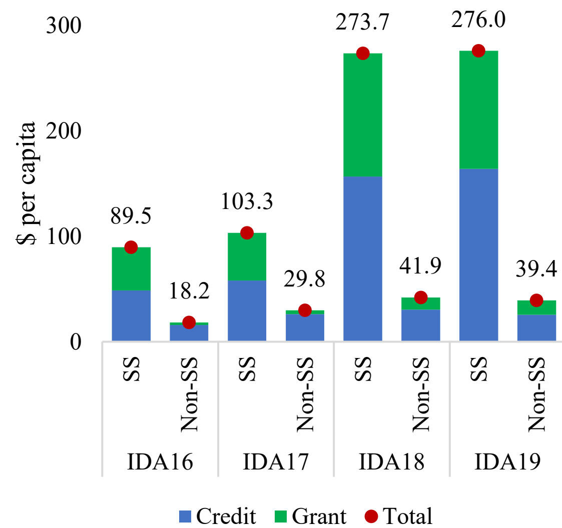


Figure 3. 1. Per Capita Commitment for Small States (SS) and non-SS ($/capita)



Note: (i) The FCS list changes annually. (ii) To calculate per capita IDA commitments for each IDA cycle, annual commitments for each group are summed over and divided by the average total population during that period (population of each FY is summed over and divided by the number of years). Source: World Bank Staff estimates.

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30 Allocations refer to the amounts allocated to each country at the beginning of an IDA cycle, whereas actual commitments can vary as they also reflect cross-country/region reallocations. Based on need and changing country circumstances, Regions have discretion to re-allocate resources within countries.

31 Changes in commitments to FCS countries reflect financing support provided to them by IDA as well as revisions in the FCS list (which is updated annually).

32 The slower increase in per capita commitments for FCS countries from IDA16 to IDA19 despite a larger increase in total commitments is in part driven by the addition of two large countries – Ethiopia and Nigeria to the FCS list in IDA19.

33 In FY23 (IDA20), per capita commitments to FCS countries stood at $14.7 and $22.8 for non-FCS countries compared to $19.0 and $22.2, respectively in FY22 (IDA19).

28. **An alternate approach to the existing framework is to have a vulnerability metric directly incorporated in the allocation formula.** Interest in including vulnerability in multilateral development bank (MDB) concessional resource frameworks is long-standing. While no MDB has incorporated a vulnerability index into its standard eligibility criteria (or access to financing), the Caribbean Development Bank (CDB) and the International Fund for Agricultural Development (IFAD) have incorporated a vulnerability index into their allocation formulas (i.e., for determination of resources). In 2020, the Asian Development Bank (AsDB) introduced an economic vulnerability premium for small island states that are eligible for Asian Development Fund grants and in 2023, it introduced new financing terms for eligible SIDS that are similar to IDA's Small Economy Terms. In 2021, the Inter-American Development Bank (IDB) incorporated a vulnerability index for determination of financing terms/concessionality.[34]

29. **However, there is no consensus about whether vulnerability indices should be incorporated into MDB concessional resource frameworks.** This is partly because there is no fixed rule for composing indices, allowing for the addition of variables on a subjective basis, and partly because the optimal vulnerability index is specific to the type of risk being addressed (i.e., whether it addresses climate vulnerability or economic vulnerability) or to its purpose (i.e., whether it will be used to determine allocation volumes or to determine lending terms/concessionality).

30. **IDA explored incorporating a vulnerability metric in its allocation framework in 2010 and 2018 and found that it would not lead to improved outcomes, particularly for all Small States.** In 2010, simulations were conducted to assess the impact of replacing the country performance rating (CPR) in the PBA formula by a weighted average of the (i) CPR, (ii) the UN Economic and Environmental Vulnerability Index and (iii) the UN Human Assets Index (HAI). The analysis found that while the PBA system was strategically designed to incentivize the performance of IDA countries, it also aimed to adequately address their needs. Adding vulnerability into the PBA formula was found to have several distributional implications and would reduce the performance orientation of the PBA system.[35] In 2018, detailed analysis was conducted on improving access to concessional finance for Small States. The analysis indicated that the heterogeneity of Small States cannot be captured by a single metric, vulnerability rankings vary and can be inconsistent across metric and that while Small States are among the most vulnerable countries in the world, there are several larger countries which are as vulnerable (if not

[34] (i) The CDB constructed of an index of inherent economic vulnerability for developing countries in 2000. This index was incorporated in its allocation formula and updated in 2011, 2012 and 2019, (ii) IFAD introduced the IFAD vulnerability index in it PBA formula that measures rural vulnerability in terms of exposure, sensitivity and lack of adaptive capacity to endogenous and exogenous events,IFAD 2018: *Report of the Consultation on the Eleventh Replenishment of IFAD's Resources*, document GC 41/L.3/Rev.1, Rome, Italy), (iii) AsDB uses the United Nations' EVI to measure vulnerability. The vulnerability premium replaces the minimum, base allocation mechanism and is outside of the PBA formula. (AsDB 2020: *Concessional Assistance Policy for ADF13)*; AsDB's new terms for SIDS include a 1 percent interest rate, a 10-year grace period, a 40-year maturity, and (iv) IDB did not include a vulnerability measure in its allocation formula but uses it for determining the concessionality of financing terms (IDB 2021: *Proposal for Adjustments to the Enhanced Performance-Based Allocation/Debt Sustainability Framework)*.

[35] The analysis also highlighted several data and implementation issues with existing vulnerability metrics – mainly timely availability of data, coverage of countries and fluctuations in rankings/results which could cause significant allocation volatility, thereby undermining aid predictability. *IDA's Performance Based Allocation System: Review of the Current System and Key Issues for IDA16*. IDA Resource Mobilization Department (CFPIR). May 2010.

more) than Small States. It concluded that IDA provides substantial concessional resources to most middle-income Small States through specific provisions in its eligibility, allocation, and financing frameworks and that a new vulnerability index would not necessarily be beneficial to all Small States.

31. **Existing vulnerability metrics provide information on risk exposure and/or resilience across countries but face data and usability challenges.** Indices for structural exposure attempt to capture factors that render households or countries more prone to exogenous shocks and indices for resilience aim to reflect institutional or infrastructural capabilities to respond to such shocks. Over past decades, several indexes focused on measuring vulnerability have been developed, including but not limited to the UN EVI, the United National Development Program *Human Development Index* (HDI), the World Bank Human Capital Index (HCI), the *Global Climate Risk Index* (CRI), the *World Risk Index* (WRI), and the Notre Dame Global Adaptation Initiative *ND-Gain Index*. Most recently, the UN launched the *Multidimensional Vulnerability Index* (MVI) (see Box 3.1). Composite indices of vulnerability, that aim to capture different types of risks across countries in a single number, typically face several challenges, e.g., the composition (selection and exclusion of sub-indices) is open-ended and can be subjective; double counting is common; data underpinning the index may be limited, untimely or unreliable;[36] and the loss of information from simplifying a complex situation into a single number makes the metric prone to measurement errors, which also increase as more sub-indices are incorporated. Moreover, country rankings are often sensitive to the choices of sub-indices and the weights, and hence not robust.

32. **IDA's existing multi-pronged approach is more efficient and targeted than an approach that incorporates a composite measure of vulnerability for allocation decisions through the PBA system which could reduce its performance orientation.** Purpose-driven allocation mechanisms like the CRW and the FCV Envelope, with tailored eligibility criteria, allow IDA to precisely direct resources to the countries that need them most at critical times. The PBA system, on the other hand, is designed to provide relatively stable support for long-term development challenges and while countries do have some flexibility to divert resources from other development projects to crisis response, this is limited in comparison to support provided by purpose-oriented windows. This issue is compounded by the limitations of existing composite vulnerability indices, which, although comprehensive, are not designed to capture a specific vulnerability. Measurement errors, which are inevitable and often significant in composite indices, have more profound consequences in a PBA system, affecting not only the allocation for a specific country but also inadvertently impacting the allocations to other countries. Analysis indicates that adding a composite index in the PBA formula would also reduce its performance orientation (see Box 3.1). Lastly, the PBA formula is distinguished by its parsimony and focus – this helps increase transparency and understandability of the PBA system, thereby facilitating its implementation.

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[36] Ravallion, M. (2011), "*Mashup Indices of Development*", The World Bank Research Observer, vol. 27, no. 1 (February 2012), Oxford University Press; and World Bank (2018), "*Small States: Vulnerability and Concessional Finance*", Technical Note, Operations Policy and Country Services (OPCS), Washington, D.C.

Box 3. 1. The Multidimensional Vulnerability Index

The MVI was prepared by a High-Level Panel of the United Nations, and its Final Report was released in October 2023. Five principles guided the development of the MVI: **Multidimensionality:** the indicators should cover three dimensions of sustainable development; **Universality:** the index should capture the vulnerabilities of all developing countries**; Exogeneity:** the index must clearly differentiate between exogenous and policy-induced factors**; Availability:** the index should use available, recognized, comparable and reliable data**;** and **Readability:** the design of the index should be clear and easily comprehensible.

The MVI is generated by the aggregation of two pillars: structural vulnerability and a lack of resilience. Each pillar is divided into three dimensions that represent sources of vulnerability or a lack of resilience: (i) economic; (ii) environmental; and (iii) social. In turn, each dimension is comprised of three "concepts", resulting in nine concepts each for structural vulnerability and a lack of resilience, and 18 concepts in total. Each concept is measured by one to three indicators. There are a total of 26 indicators in the MVI. The index uses an equal weight quadratic mean method for aggregation.

MVI scores are calculated for 142 countries and cover all IDA-eligible countries except Kosovo. Level indicators are measured over a five or ten-year average and indicators measuring instability are measured over a 20-year period. However, it is unclear the frequency at which MVI scores will be updated.
Preliminary analysis of incorporating the MVI in IDA's framework reinforces earlier results from 2010 and 2018 – mainly that the incorporation of a third "needs" variable in the PBA formula leads to a weakening in the performance orientation of the PBA (the allocation shares of the top and third CPR quintiles decrease, while those of the second, fourth and fifth quintiles increase). It is also not clear if all Small States would benefit from the inclusion of the MVI in the PBA formula or would lose considerable resources if the inclusion of the MVI in the PBA formula replaces the base allocation (IDA's current support mechanism to protect volumes in vulnerable Small States). Lastly, introducing the MVI into the IDA eligibility criteria would be regressive, shifting concessional resources from low and low-middle income countries to upper-middle and high-income countries.

The MVI is a commendable and ambitious undertaking of constructing a comprehensive measure of vulnerability. However, while the selection of each indicator is guided by some evidence of correlation with either structural exposure to risk ("structural vulnerability") or resilience components, the process of sub-index selection includes inherent subjectivity, making it difficult to assess if the chosen sub-indices form an optimal set for fully capturing a country's multidimensional vulnerability—a common issue with complex composite indices. Moreover, the use of 26 sub-indicators implies there are 26 potential sources of measurement error, which could lead to large measurement errors in the final composite index, adding ambiguity in the final index results/rankings.

Source: (i) *United Nations High Level Panel (2023) "Multidimensional Vulnerability Index: Final Report", Advance Unedited Version; (ii) World Bank Staff Analysis.*

33. **However, IDA countries face high financing needs as they grapple against the impact of long-term climate change, food insecurity and tighter global financing conditions.** Effects of climate change, combined with rising pre-pandemic debt and vulnerabilities and recent overlapping crises, are weighing heavily on IDA countries' economic and social development. Economic losses from natural disasters in IDA countries are substantial and have risen significantly over time, averaging 1.3 percent of GDP over 2011-2022 – considerably higher than in other Emerging Market and Development Economies (EMDEs). Beyond economic losses, extreme weather events can significantly affect food security and livelihoods, especially in FCS countries. Total annual investment needs—which include investments needed for a resilient and

low-carbon pathway and for closing existing development and infrastructure gaps—can be as high as 10 percent of GDP in some IDA countries, with poorer countries facing particularly large gaps.[37] This reinforces the need for a strong and robust IDA21 replenishment for IDA to be able to continue to provide critical resources to the poorest and most vulnerable countries.

IV. RECENT CHANGES AND ONGOING EFFORTS TO STRENGTHEN IDA'S FRAMEWORK ON VULNERABILITY

34. **Recognizing the evolving nature of vulnerabilities faced by IDA countries, IDA has taken two specific measures to further strengthen its framework.** First, at IDA20 MTR, a proposal to extend the SIEE to non-island Small States, i.e., a broader Small States Exception (SSE), was endorsed by IDA Participants and approved by the Board. This change recognizes that non-island Small States face challenges similar to SIEs. As a result of these changes, Belize, Eswatini and Suriname (current IBRD borrowers) are likely to qualify for access to IDA and gain the Exception.[38] All three countries are highly vulnerable to long-term climate change, natural disasters, and economic shocks.[39] Second, a framework to guide decisions on reverse graduation was also endorsed at the IDA20 MTR. The parameters of the proposed framework draw from IDA eligibility criteria – creditworthiness and 'relative poverty' – and a broader set of factors including poverty and social indicators, vulnerabilities to shocks, institutional constraints, and commitment to reform.

35. **The proposed IDA21 policy and results package will continue to advance crisis preparedness in IDA countries and will enable IDA partners to track this progress.** IDA Borrowers[40] and Donors[41] alike have underscored the continuing relevance of the crisis

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37 World Bank (2024). The Great Reversal: Prospects, Risks, and Policies in International Development Association (IDA) countries.

38 Reclassification of all three countries is pending internal clearances. However, Suriname is not a member of IDA and will first need gain membership of the Association to be able to access IDA resources. A request for this has been the submitted by the country and the process is underway. The inclusion of these three countries will take the total number of IDA-eligible countries to 78.

39 Of the current IDA-eligible Small States, Bhutan, Djibouti, and Timor-Leste will also formally enter the Exception – taking the total number of countries benefitting from the Exception from 17 to 23.

40 IDA Borrowers Representatives' joint statement on the IDA21 Strategic Directions note observed that poly-crises have weakened economic growth and tightened fiscal space, resulting in increased poverty and inequalities, as well as elevated vulnerabilities. At the April 2024 IDA for Africa Heads of State Summit, African borrowers acknowledged the importance of investing in preparedness for health, climate, and natural disaster-related crises, and stressed the need to build capacity for such responses. The *Non-paper on Improving Bank Effectiveness in Small Island Developing States* welcomes the range of options available to borrowers for crisis response but stresses the importance of capacity building and communication to ensure that borrowers are well-positioned to make effective use of the tools. The *Non-paper on Fragility, Conflict and Violence (FCV) in IDA21* stresses the importance of holistic crisis preparedness, particularly for countries affected by FCV.

41 Donor comments have stressed the cross-cutting nature of crisis preparedness. For example, the *Non-paper on IDA21 Direction of Work* describes crisis preparedness as having horizontal, or cross-cutting, relevance. The non-paper on *Reinforcing the IDA21 Scorecard – Key Areas for Input/Output Indicators* outlines preparedness inputs and outputs related to health and natural disaster preparedness that could be useful to track and report in the new Scorecard, the forthcoming operational efficiency database, or IDA policy commitments. The non-paper *Approach to Crisis Preparedness and Response for IDA21* calls for an overarching approach to reporting on

preparedness agenda as one component of IDA's approach to addressing vulnerability. In IDA21, the Scorecard will offer a holistic approach for monitoring the outcomes of shock-specific and shock-agnostic investments in preparedness, with an emphasis on identifying lives improved by building resilience to climate risks, health emergencies, and food insecurity, and by investing in social safety nets that can serve citizens through a range of crises. The forthcoming operational dashboard can also be designed to support IDA partners in tracking progress on critical inputs, such as the uptake of the enhanced Crisis Preparedness and Response Toolkit options. The IDA21 package of proposed policy commitments will complement this outcome reporting by continuing to integrate themes of resilience under the People (service delivery); Planet (water security); Infrastructure (resilient urban infrastructure); and Digitalization (digital public infrastructure with safeguards to protect institutions, services, and citizens) Focus Areas. These elements of the proposed policy architecture will sustain IDA's focus on crisis preparedness. Operationally, the Country Partnership Frameworks informed by crisis-preparedness diagnostics will continue to guide programming, and the enhanced Crisis Preparedness and Response Toolkit is available to help IDA Borrowers in addressing the need to improve financial preparedness for crises, a key gap identified in Crisis Preparedness Gap Analyses (CPGAs) delivered during IDA20 (see Box 4.1).

36. **Through the remainder of IDA20 and looking ahead to IDA21, the World Bank's enhanced Crisis Response Toolkit will continue to help countries, particularly Small States, tackle crises and develop lasting resilience, building on existing lessons and knowledge.** These changes will help vulnerable countries, including IDA countries, better respond to crisis and strengthen preparedness for future shocks. First, they will provide countries with access to cash for emergency response. A Rapid Response Option in the toolkit enables countries to develop a Contingent Emergency Response Project, that makes it possible for governments to quickly access up to 10 percent of undisbursed balances in their IBRD or IDA portfolio when faced with natural or man-made crises or disasters with major adverse economic and/or social impact.[42] Even when the Rapid Response Option has not been activated, the Contingent Emergency Response Projects are subject to ongoing supervision that can support an ongoing policy dialogue around crisis readiness. Second, the changes to the toolkit will allow countries to substantially scale up access to pre-arranged financing for emergency response – the existing country limits on CAT-DDOs have been doubled, with special provisions for Small States. Third, they expand existing measures for catastrophe insurance –countries can embed catastrophe bonds and insurance products into their World Bank financing operations, expanding the use of these tools for high-intensity but low-frequency disasters. Fourth, Climate Resilient Debt Clauses (CRDCs) will allow Small States to defer principal and interest (and other loan charges) payments on existing and new loans when

IDA's holistic support to crisis preparedness, expanded funding and incentives for crisis preparedness within IDA, and expanded institutional partnerships among international financial institutions in support of crisis preparedness. Inputs have also highlighted the importance of sector-specific preparations areas. The *IDA21 Non-paper on Climate and Nature* stresses the importance of building on IDA's track record to invest in client capacity, adaptation, resilience building and disaster preparedness and response. Similarly, the 2024 *IDA21 Non-paper on the Prosperity focus area* notes the importance of investments to prevent financial sector risks and prepare to resolve financial crises.

42 World Bank (2024). Proposed Changes to IBRD/IDA Operational Policies to Enhance the World Bank Crisis Preparedness and Response Toolkit.

faced with a natural disaster for crisis response.[43] Management is working with IBRD/IDA shareholders to ensure that CRDCs will be offered at no cost to borrowers with the fee covered by the Livable Planet Fund Trust Fund or other eligible donor trust funds. These institutionally-focused changes can help countries implement financial preparedness solutions in advance of a crisis – a key gap identified in cross-sectoral analyses – complementing the people-focused tracking of outcomes in the Scorecard and sector-specific priorities in the IDA21 Policy Commitments.

37. **Eligibility criteria for the FCV Envelope will be reviewed in IDA21 to ensure it remains fit for purpose.** A key lesson emerging from the mid-term review of the FCV Strategy is that the WBG must take a more upstream preventive approach where there are significant risks of conflict.[44] However, existing objective of the PRA and its quantitative thresholds focus on situations that already experience violence and may therefore not capture upstream risks.[45] To account for this as well as the need to be able to respond to a variety of situations that may be difficult to quantify at the outset, eligibility criteria for all allocations in the FCV Envelope may be revised to include a "qualitative pathway" when the quantitative criteria are not met. To ringfence the allocations, applicants would provide supporting data and allocations would be calibrated vis-a-vis performance and adherence to the objective of the additional allocations, including the timely use of committed IDA resources.[46]

38. **In addition to financial support, IDA countries need technical assistance for capacity building and institutional strengthening.** To mitigate risks from rising vulnerabilities, policy makers in IDA countries need to implement complex and challenging reforms to restore fiscal sustainability and to strengthen their policy and institutional frameworks. However, most IDA countries have weak institutions and capacity, complicating policy design and implementation. Thus, financial efforts to support IDA countries need to be expanded, including through guarantees and other instruments to mobilize private sector investment, and supported with parallel technical assistance through trust funds for capacity building, greater synergies between lending operations as well as well-focused and strong country programs. This will be strengthened in IDA21.

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[43] CRDCs are offered to IBRD and IDA-eligible Small States, World Bank Small States Forum members and UN defined SIDS experiencing tropical cyclones and hurricanes, and earthquakes exceeding a specified parametric trigger. If the hard primary triggers are not met, yet the damage is significant (greater than or equal to 10 percent of the country's GDP based on the World Bank's Global Rapid Post-Disaster Damage Estimation), secondary triggers come into effect for activating CRDCs.

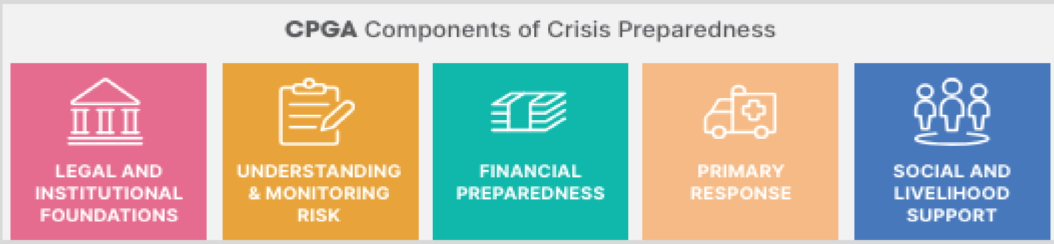
[44] Mid-Term Review of the World Bank Group Strategy for FCV (2020–25), October 20, 2023.

[45] Management has already leaned forward in this regard and awarded Togo a waiver from the quantitative threshold criterion for the PRA.

[46] E.g., evidence of subnational or regional conflict that is spreading, lack of government control over parts of the national territory and associated internal displacement, a proliferation of non-state actors, the degree to which civilians are targeted, rapid increase of homicide rates or femicide, high prevalence of gang activity.

Box 4. 1. Findings from IDA20 Crisis Preparedness Gap Analyses

The Crisis Preparedness Gap Analysis (CPGA) is a high-level diagnostic tool that reviews the building blocks of preparedness. It offers a comprehensive overview of a country's capacity to prepare for the socioeconomic impacts of a range of shocks. The cross-cutting nature of the analysis distinguishes it from other shock-specific analytical tools. By identifying shortfalls across key country systems, it identifies entry points for targeted technical and financial support that can strengthen preparedness across sectors. The analysis assesses maturity levels of institutional capacity (five ratings ranging from "unmet" to "advanced") across 13 dimensions and five broader categories of preparedness, as follows:



It is only one of a range of preparedness diagnostics that are being used to inform Country Partnership Frameworks in IDA20, enabling IDA to support a range of Borrower priorities and needs, but given its comprehensive nature considering patterns of gaps can provide insights on priority preparedness needs in IDA countries. Nine countries across four regions will have completed the CPGAs by the end of FY24, and more are underway.

The findings indicate that all assessed countries have the legal and institutional underpinnings for crisis preparedness, usually incorporated in disaster risk management or disaster risk reduction strategies, policies or frameworks. At the same time, they often lack the financial and technical capacity to operationalize these preparedness frameworks. One-third of the countries had a good basis for moving forward in the implementation of these strategies, while two thirds remained at a more embryonic stage, requiring greater clarity in roles and responsibilities among government counterparts and even the establishment or strengthening of a national disaster management agency. Within the sectoral components of Social and Livelihood Support and Primary Response, the weakest sectors were those of food security and critical infrastructure – the sectors most often and hardest hit when a crisis arises.

Financial Preparedness for crisis was identified as a gap across all countries analyzed to date, with this component scoring in the lowest overall maturity level, and no countries attaining a rating above "Nascent". Analyses have encouraged countries to focus on developing instruments, strategies, and operational guidelines for crisis financing needs.

Across the board, the CPGAs conducted to date identify ongoing needs for:

1. Support to improve governance and coordination of CP structures within line ministries as well as more centrally.
2. Support to implement existing policies and plans including ensuring adequate financing for operationalization.
3. Assistance to bolster technical capacities to allow for country driven CP across sectors.

39. **Going forward, to further enhance the effectiveness of its existing framework, IDA may explore using metrics designed to capture a specific vulnerability.** For instance, as part of the new Scorecard initiative, the World Bank is developing a methodology to estimate the number of people highly vulnerable to climate risks, calculated by estimating the number of people who live in countries exposed to extreme weather events such as flood, drought, cyclone, or heatwave

and at high risk of experiencing severe economic impacts due to such events.[47] Unlike other indices which aggregate national level data, the methodology utilizes available household survey data to measure exposure and vulnerability at the household level. Such a metric could be incorporated into IDA's existing framework in the future to improve targeting of concessional resources to vulnerable countries, e.g., eligibility for a specific purpose-oriented allocation or in the determination of concessionality.

V. CONCLUSION

40. **Developed over the years, IDA's current framework to addresses the varied vulnerabilities of its Borrowers is well-structured and comprehensive.** The framework's multi-pronged approach includes: (i) the PBA formula which favors countries with lower incomes; (ii) the minimum base allocation protects support for Small States; (iii) credits with differentiated financial terms with the most concessional credits and grants reserved for countries with the highest debt vulnerabilities and Small States; and (iii) purpose-driven allocations which directly address specific vulnerabilities, such as fragility, conflict and violence, natural disasters, pandemics, and economic crises. In addition, financial support to IDA countries is complemented by a policy framework that provides focused support in areas of debt sustainability, climate mitigation and adaptation and crisis preparedness, among others. An alternate approach is to add a composite measure of vulnerability in the PBA formula. However, given methodological and data constraints with existing indices, the benefits of such an approach are uncertain. In contrast, the effectiveness of IDA's current approach can be observed in the higher average per capita allocations to Small States and the higher proportion of grants received by both FCS countries and Small States. Recently, IDA has expanded support to vulnerable states by expanding the SIEE to non-island Small States, factoring in vulnerability in its reverse graduation framework, and through the enhanced World Bank Crisis Toolkit. Going forward, as part of IDA21, we are exploring options for strengthening this framework further by reviewing the eligibility criteria for the FCV Envelope, to account for situations not captured in existing metrics.

41. **Due to mounting challenges from climate change, rising debt and fragility, IDA countries continue to require greater resources and dedicated support to achieve resilient and sustainable growth, reinforcing the need for a robust IDA21.** With rising debt service costs crowding out essential public expenditures, IDA countries face significant resource constraints for investments in human capital, climate mitigation and adaptation, among others. There is a need to enhance financial support to IDA countries. In parallel, given their weak institutional environment, IDA countries also require technical assistance for capacity building and well-focused country programs that will help them address the sources of and mitigate risks from existing vulnerabilities.

[47] The indicator is a modification of the indicator featured in *Doan et. al.2023. Counting People Exposed to, Vulnerable to, or at High Risk from Climate Shocks A Methodology.* The methods note for the indicator will be finalized in June 2024 and the first set of data will be available by the 2024 Annual Meetings.

ANNEX. 1. ELIGIBILITY FOR IDA FINANCING

#	Country	FY24 Lending Eligibility	2022 GNI per capita, Atlas method (current US$)	Income Group	Small State	FY24 FCS	Risk of External Debt Distress (End-April 2024)
1	Cameroon	Blend	1,660	Lower middle income		FCS	High
2	Congo, Republic of	Blend	2,060	Lower middle income		FCS	In debt distress
3	Kenya	Blend	2,170	Lower middle income			High
4	Nigeria	Blend	2,140	Lower middle income		FCS	MAC-SRDSF
5	Pakistan	Blend	1,580	Lower middle income			MAC-SRDSF
6	Papua New Guinea	Blend	2,730	Lower middle income		FCS	High
7	Uzbekistan	Blend	2,190	Lower middle income			Low
8	Cabo Verde	Blend	4,140	Lower middle income	Small State		Moderate
9	Dominica	Blend	8,460	Upper middle income	Small State		High
10	Fiji	Blend	5,270	Upper middle income	Small State		MAC-SRDSF
11	Grenada	Blend	9,340	Upper middle income	Small State		In debt distress
12	St. Lucia	Blend	11,160	Upper middle income	Small State		MAC-SRDSF
13	St. Vincent and the Grenadines	Blend	9,110	Upper middle income	Small State		High
14	Timor-Leste	Blend	1,970	Lower middle income	Small State	FCS	Moderate
15	Zimbabwe	Blend/ Inactive	1,500	Lower middle income		FCS	In debt distress
16	Bangladesh	Gap	2,820	Lower middle income			Low
17	Benin	Gap	1,400	Lower middle income			Moderate
18	Cambodia	Gap	1,700	Lower middle income			Low
19	Cote d'Ivoire	Gap	2,620	Lower middle income			Moderate
20	Ghana	Gap	2,350	Lower middle income			In debt distress
21	Haiti	Gap	1,610	Lower middle income		FCS	High
22	Honduras	Gap	2,740	Lower middle income			Low
23	Kosovo	Gap	5,590	Upper middle income		FCS	MAC-SRDSF
24	Lao People's Democratic Republic	Gap	2,360	Lower middle income			In debt distress
25	Lesotho	Gap	1,260	Lower middle income			Moderate
26	Mauritania	Gap	2,160	Lower middle income			Moderate
27	Myanmar	Gap	1,210	Lower middle income		FCS	Low
28	Nicaragua	Gap	2,090	Lower middle income			Moderate
29	Senegal	Gap	1,640	Lower middle income			Moderate
30	Sri Lanka	Gap	3,610	Lower middle income			MAC-SRDSF
31	Bhutan	Gap	-	Lower middle income	Small State		Moderate
32	Djibouti	Gap	3,180	Lower middle income	Small State		High
33	Guyana	Gap	15,050	High income	Small State		Moderate
34	Afghanistan	IDA-only	-	Low income		FCS	High
35	Burkina Faso	IDA-only	840	Low income		FCS	Moderate
36	Burundi	IDA-only	240	Low income		FCS	High
37	Central African Republic	IDA-only	480	Low income		FCS	High
38	Chad	IDA-only	690	Low income		FCS	High

#	Country	FY24 Lending Eligibility	2022 GNI per capita, Atlas method (current US$)	Income Group	Small State	FY24 FCS	Risk of External Debt Distress (End-April 2024)
39	Congo, Democratic Republic of	IDA-only	590	Low income		FCS	Moderate
40	Ethiopia	IDA-only	1020	Low income		FCS	High
41	Gambia, The	IDA-only	810	Low income			High
42	Guinea	IDA-only	1,180	Lower middle income			Moderate
43	Guinea-Bissau	IDA-only	820	Low income		FCS	High
44	Kyrgyz Republic	IDA-only	1,410	Lower middle income			Moderate
45	Liberia	IDA-only	680	Low income			Moderate
46	Madagascar	IDA-only	510	Low income			Moderate
47	Malawi	IDA-only	640	Low income			In debt distress
48	Mali	IDA-only	850	Low income		FCS	Moderate
49	Mozambique	IDA-only	500	Low income		FCS	High
50	Nepal	IDA-only	1,340	Lower middle income			Low
51	Niger	IDA-only	610	Low income		FCS	Moderate
52	Rwanda	IDA-only	930	Low income			Moderate
53	Sierra Leone	IDA-only	510	Low income			High
54	Somalia	IDA-only	470	Low income		FCS	Moderate
55	South Sudan	IDA-only	-	Low income		FCS	High
56	Sudan	IDA-only	760	Low income		FCS	In debt distress
57	Tajikistan	IDA-only	1,210	Lower middle income			High
58	Tanzania	IDA-only	1,200	Lower middle income			Moderate
59	Togo	IDA-only	990	Low income			Moderate
60	Uganda	IDA-only	930	Low income			Moderate
61	Yemen, Republic of	IDA-only	-	Low income		FCS	Moderate
62	Zambia	IDA-only	1,170	Lower middle income			In debt distress
63	Comoros	IDA-only	1,610	Lower middle income	Small State	FCS	High
64	Kiribati	IDA-only	3,280	Lower middle income	Small State	FCS	High
65	Maldives	IDA-only	11,030	Upper middle income	Small State		High
66	Marshall Islands	IDA-only	7,920	Upper middle income	Small State	FCS	High
67	Micronesia, Federated States of	IDA-only	4,130	Lower middle income	Small State	FCS	Moderate
68	Samoa	IDA-only	3,630	Lower middle income	Small State		High
69	Sao Tome and Principe	IDA-only	2,410	Lower middle income	Small State	FCS	In debt distress
70	Solomon Islands	IDA-only	2,220	Lower middle income	Small State	FCS	Moderate
71	Tonga	IDA-only	-	Upper middle income	Small State		High
72	Tuvalu	IDA-only	7,210	Upper middle income	Small State	FCS	High
73	Vanuatu	IDA-only	3,560	Lower middle income	Small State		Moderate
74	Eritrea	IDA-only/Inactive	-	Low income		FCS	-
75	Syrian Arab Republic	IDA-only/Inactive	-	Low income		FCS	-

ANNEX. 2. EXISTING VULNERABILITY METRICS[1]

1. Over the years, several attempts have been made to develop metrics of vulnerability and resilience to shocks. Vulnerability metrics can focus on structural aspects that render households or countries more prone to exogenous shocks (exposure) and/or resilience features (i.e., policy-induced ability to respond to such shocks). The section below describes some known metrics.

A. Economic and Environmental Vulnerability Index

2. The **Economic and Environmental Vulnerability Index (EVI),** produced by the United Nations Committee for Development Policy is a measure of structural vulnerability to economic and environmental shocks. It is calculated as one-half of the Economic Vulnerability Index and one-half of the Environmental Vulnerability Index. EVI scores are published for 142, a higher score indicates greater economic and environmental vulnerability and vice versa.

a. The Economic Vulnerability Index is calculated as one-fourth of the share of agriculture, forestry and fisheries in GDP (Source: United Nations, Department of Economic and Social Affairs (DESA); one-fourth of the remoteness and landlockedness (UN DESA and Centre d'Etudes Prospectives et d'Informations Internationales (CEPII); one-fourth of the merchandise export concentration (Source: United Nations Conference on Trade and Development (UNCTAD); and one-fourth of the export instability of goods and services (Source: UN DESA).

b. The Environmental Vulnerability Index is calculated as one-fourth of the share of population in low elevated coastal zones (Center for International Earth Science Information Network - CIESIN - Columbia University), one-fourth of the share of population living in drylands (UN DESA), one-fourth of the instability of agricultural production (UN DESA); and one-fourth of the victims of disasters (UN DESA).[2]

3. One key shortcoming of the index is that the structural variable related to export concentration leaves out services trade, which is important for small states.[3] Moreover, the rationale of the relative weights is unclear and concerns about data availability weaken the applicability of the metric.

B. Global Climate Risk Index

4. The **Global Climate Risk Index (CRI),** developed by Germanwatch, is commonly used as an indicator of the level of exposure and vulnerability to extreme weather-related events. It analyzes the extent to which countries have been affected directly by the impacts of weather-related loss events—such as storms, floods, or heat waves. The CRI excludes geological incidents

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[1] The World Bank, Technical Note, Small States: Vulnerability and Concessional Finance published in 2018 discusses in detail the problems associated with formulating measures of vulnerability. It further illustrates how ranking of vulnerability for countries (especially Small States) vary depending on the metric used; and how different metrics can lead to inconsistent rankings.

[2] *https://www.un.org/development/desa/dpad/least-developed-country-category/evi-indicators-ldc.html*

[3] Briguglio (2014)

such as earthquakes, volcanic eruptions, or tsunamis as they do not depend on the weather and therefore are not possibly related to climate change. The index indicates a level of future exposure to extreme weather events based on past weather-related losses (that is, number of deaths and economic losses in absolute and relative terms).[4] The most recent data cover weather-related impacts in 2000–2019.3 CRI indices are published for 180 countries where countries are ranked based on the highest weather-related impact (ranked 1) to the lowest (ranked 180).

5. As it summarizes the extreme events during a period of 20 years, the index can be considered a good measure of exposure to natural hazards. However, the CRI suffers from one important limitation due to data sources. Since it relies essentially on the MunichRE NatCatservice database, the index is affected by the limitations of such a database, which is biased by construction towards the more developed countries for two reasons. Firstly, the database is mainly constructed with insurances' reports on losses. These reports exist where the insurance offices are located; therefore, an underrepresentation of developing countries is likely. Secondly, the component on monetary losses is biased toward countries where infrastructure is more important and costly. Thirdly, the concepts and terminology used are not clearly defined and there are some inconsistencies between CRI and the international scientific community outcomes on climate change.[5] Germanwatch acknowledges that the CRI is not a comprehensive climate vulnerability scoring, for e.g., it does not consider rising sea-levels, glacier melting, or more acidic and warmer seas.

C. World Risk Index

6. The **World Risk Index (WRI)** has been published annually since 2011 by Bündnis Entwicklung Hilft and The Institute for International Law of Peace and Armed Conflict (IFHV) of Ruhr University Bochum. The WRI calculates disaster risk for 193 countries which are classified into five categories of risk: Very High, High, Medium, Low, and Vey Low. The Index is based on four components: (i) exposure to natural disasters; (ii) susceptibility / vulnerability depending on infrastructure, food supply and economic framework conditions; (iii) coping capacity depending on governance, health care and social security; and (iv) adaptive capacity to natural disasters, climate change and other exogenous shocks. The latest report available is for 2023.

[4] The index is based on the number of deaths, number of deaths per 100,000 inhabitants, sum of losses in US dollars in purchasing power parity, and losses per unit of GDP.

[5] A. Miola and C. Simonet: Concepts and Metrics for Climate Change and Development- Towards and Index for Climate Resilience Development, 2014, European Commission.