



DEVELOPMENT COMMITTEE  
(Joint Ministerial Committee  
of the  
Boards of Governors of the Bank and the Fund  
on the  
Transfer of Real Resources to Developing Countries)



**DC2020-0003**  
March 31, 2020

Update on World Bank Group Response to the COVID-19 Emergency

Attached is the document titled “Update on World Bank Group Response to the COVID-19 Emergency” prepared by the World Bank Group for the virtual April 17, 2020 Development Committee Meeting.



## **Update on World Bank Group Response to the COVID-19 Emergency**

### **I. Introduction**

1. **The world is facing an unprecedented crisis.** First, COVID-19 has become a global pandemic affecting virtually all countries around the globe. Second, the extraordinary public health measures taken by governments around the world are resulting in a contraction of the world economy not seen since the second World War. The depth of the recession will be a function of the length of the COVID-19 health crisis itself. Currently, estimates suggest a much deeper global downturn than the financial sector crisis that began in 2008, as supply and demand shocks from the health crisis affect every country.

2. **Governments are taking far-reaching health, social, and economic measures to cope with the deteriorating situation.** These measures need to be matched by fast and effective action from multilateral institutions. The World Bank Group (WBG) has moved quickly to mount a comprehensive and flexible response that builds on the experience with the avian flu outbreak in 2004 and the response to the global financial crisis in 2008. The response utilizes all WBG operational and policy instruments and is developed and implemented in close partnership with governments and with UN agencies, the IMF, and the multilateral development banks (MDBs). The WBG response includes emergency financing, policy advice, and technical assistance, to support clients in addressing the critical health sector needs as well as the broader impacts of COVID-19 on economies and livelihoods. A strong initial response to the health emergency is already well underway. In parallel, a program of support for countries to cope with the economic and social crisis as well as supporting private sector activity is being prepared. This note summarizes for Governors the efforts of the WBG and provides an update on the financial capacity of the WBG to mount a robust response in the course of the next 15 months.

### **II. WBG Response to COVID-19**

3. **Executive Directors and Management have conducted a series of intensive discussions to develop the strategies and specific proposals for addressing the COVID-19 pandemic.** On March 3, 2020, Executive Directors endorsed the establishment of a World Bank Group Fast Track COVID-19 Facility (FTCF).<sup>1</sup> The FTCF provides for an initial amount of up to US\$14 billion in immediate support to assist countries coping with the impact of the global outbreak. Of this amount, US\$6 billion would come from IBRD and IDA and would focus on responding to critical health sector needs. US\$8 billion is from IFC and is targeted at companies to help them cope with

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<sup>1</sup> See “Briefing Note for Board of Executive Directors on Launch of World Bank Group Fast Track COVID-19 Facility”, March 3, 2020.

the immediate operational and financial impacts of COVID-19. On March 17, Executive Directors formally approved the FTCF package, including the frameworks and resources needed for its operationalization.<sup>2,3</sup> And on March 25, Executive Directors discussed plans for WBG support to countries to cope with the economic and social impact of the crisis, including support for private sector activity and further health sector financing as necessary.<sup>4</sup> The remainder of this section provides an overview of the WBG health sector and broader social and economic response.

### *A. Health Sector Response*

4. **The rapid spread of COVID-19 calls for a global, coordinated, flexible and fast response.** It is in the interest of all countries to support the global public good by mustering a robust response that seeks to contain the pandemic in order to help prevent greater loss of life and avoid deeper economic consequences. The breadth of the response by countries and by the international community will be critical to the overall effectiveness of the effort to contain COVID-19. Furthermore, while immediate action is needed in multiple areas to anticipate impacts, there is also a longer-term agenda given systemic shortcomings with respect to core public health functions in many countries. Work on both the short and long-term fronts needs to proceed in tandem, and short-term responses should be consistent with and contribute to longer-term interventions. Stronger health systems will be critical to maintaining the benefits of suppressing the spread of the COVID-19, and to prevent its resurgence.

5. **The World Bank (WB) health sector response is therefore broad-based and includes emergency financing, policy advice, and technical assistance.** The response is being designed and will be implemented in close partnership with the World Health Organization (WHO). The WHO's role is crucial in leading the global response and guiding effective in-country actions. The WB is also working closely with other United Nations (UN) agencies, international financial institutions (IFIs), non-governmental organizations (NGOs) and member governments towards timely, effective and coordinated support for what is needed.

6. **IBRD and IDA countries are expressing significant demand for FTCF resources for health sector assistance.** An initial batch of projects amounting to US\$1.9 billion was sent to the Board at the end of March for 25 countries under a global emergency Multiphase Programmatic Approach (MPA) umbrella operation.<sup>5</sup> Projects amounting to US\$1.4 billion are under development for an additional 38 countries and are expected to be approved before the end of April. The MPA allows for fast track preparation of similar projects and enables a coordinated and effective response to COVID-19 by borrowing countries facing similar emergency needs, including assistance with disease containment, diagnosis, and treatment. The MPA also provides

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<sup>2</sup> See "Proposal for a World Bank COVID-19 Response under the Fast Track COVID-19 Facility", March 12, 2020.

<sup>3</sup> See "Proposed Investment in IFC Fast Track COVID-19 Facility", March 12, 2020.

<sup>4</sup> See "WBG Additional Response to the COVID-19 Crisis: Addressing the Economic and Social Implications", March 25, 2020.

<sup>5</sup> COVID-19 Strategic Preparedness and Response Program (SPRP) Multiphase Programmatic Approach (MPA) (R2020-0079, IDA/R2020-0098).

a global platform that can be used for learning and collaboration with development partners. In this context, the WB is working with MDBs both to coordinate country-level actions, and to provide a platform for co-financing to channel additional resources for the health sector response. Finally, the WB is working with 31 countries that are restructuring existing IBRD and IDA financed operations to better respond to the outbreak or to free up and redirect resources for the COVID-19 response.<sup>6</sup>

7. **The WBG is also addressing the central challenge of the procurement of medical supplies.** The usual supply chains for medical supplies have been severely disrupted and the WB is therefore offering enhanced assistance to borrowers to proactively assist them in accessing existing supply chains. For borrowers that request assistance, the WB is offering to assist with negotiating prices, including on the basis of aggregated demand across countries, as well as delivery, and other contract conditions. Borrowers remain responsible for signing and entering into contracts as well as associated logistics. The WB is coordinating these efforts closely with the WHO and UNICEF, which also have systems for procuring medical supplies. IFC is working closely with the WB team as well as private sector equipment providers to provide support to the global supply chain, including the increased production of medical equipment and enhanced service delivery.

#### ***B. Broader Social and Economic Response***

8. **The WBG response to address the broader social and economic impact includes three pillars of support:**

- ***Protecting the poor and vulnerable:*** This includes investments in health service systems for containment and treatment, as supported under the initial stage of the WBG COVID-19 response and scaled up where necessary. An important and urgent element is to reinforce social assistance to households who have lost jobs and livelihoods directly or indirectly due to the pandemic. Cash transfers, including those delivered through digital payments, will be critical in responding to this crisis. Other critical government services that support the poor and vulnerable (such as education of children impacted by school closures) also need support.
- ***Supporting businesses:*** Since businesses of all kinds are taking a hit, they would benefit from access to well-targeted short-term credit, equity capital, tax breaks, or subsidies. Consistent with the approach taken for the US\$8 billion package, IFC is looking to further support private sector clients, existing and new, through provision of trade finance, working capital, debt and equity capital to sustain long term solvency of viable business models and upstream interventions to prepare projects that would be ready for deployment once the pandemic subsides. MIGA's proposed approach will help private investor execute

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<sup>6</sup> Management will provide a full update on COVID-19 related commitments at the time of the Development Committee meeting.

projects that create economic value and sustain jobs; and support banks and financial institutions seeking to maintain access to credit for productive enterprises.

- ***Strengthening economic resilience and speed of recovery:*** The WB will help countries devise customized fiscally-sustainable policy responses that support weathering the crisis in the short-term, and economic recovery in the medium term. A comprehensive package of policy actions should focus on ensuring that containment and transition policies do not exacerbate economic and social impacts or create greater costs during the recovery process. Economic recovery will be enhanced by investments in infrastructure (led by the private sector led where possible), domestic capital markets and human capital, complemented with reforms that bolster resilience. Reforms to support rules-based and transparent systems for flows of international goods and finance will be particularly important, once the health crisis has abated, to reverse the tightening of borders that has been implemented by many countries. In this context, it must be noted that for developing countries to be able to mount an effective health sector response, international trade in medical devices, pharmaceuticals, equipment, reagents, testing kits, and medical and professional services must remain open. The WBG will also support enhanced monitoring and surveillance of financial systems to guard against the risk of the shock evolving into a financial crisis.

9. **In line with these three pillars, WBG will deploy the full range of its financial instruments and advisory services to support clients across the income spectrum.** Mutually reinforcing financial support from the WB, IFC and MIGA will be a critical element, and so will be the leveraging of the WBG's knowledge and complementarity of interventions.

**WB response.** The initial WB response focused on investment lending to address critical health sector needs, will be expanded during the next stage to include fast-disbursing development policy operations (DPOs) as well as Program for Results (PforR) operations. As in the response to previous crises, DPOs are particularly well-suited to support the much-needed policy and institutional actions and reforms to address both immediate impacts (for example, mitigating the adverse development impacts of macroeconomic shocks and adjustment, including on the poor, essential public services and jobs) as well as the medium-term economic recovery (ensuring structural reforms to spark growth, shorten the time to recovery, and ensure that recovery is broad based and sustainable). In addition, DPOs can provide quick-disbursing financing to protect essential expenditures. To inform financing support, the WB will use existing and ongoing analytical work to identify good practices in policy responses that countries could adopt. Building on global experience and lessons learned from previous crisis, the WB would customize policy interventions that are suitable for different countries, given different channels of impact and the different economic or social entities being targeted by the policy measure.

- **IFC response.** IFC has already identified over 300 firms in over 70 countries who could benefit from the FTCTF through extension of trade finance and working capital lines to these existing clients. Going forward, IFC will support a wider group of private sector players

with a view to dampen the negative effects of the crisis on employment, growth and public finances, including through increased support from the IDA-IFC-MIGA Private Sector Window (PSW) and other donor funds for trade finance, increased support to private equity funds and their investees (that are mostly micro, small and medium enterprises – MSMEs) through provision of loans and equity capital, and the development of a Pandemic Impact Mitigation Facility to support firm-level financial restructuring for companies with good business fundamentals that have been negatively impacted by the crisis. Across all these interventions, IFC expects to deploy short and long-term debt financing as well as equity and risk sharing instruments. In particular, IFC expects the crisis to negatively impact private equity markets and therefore anticipates the need for it to act (like it did following the global financial crisis of 2008-2009) as a market leader to deploy, through own account and mobilization, much needed equity capital in emerging and developing markets. In addition, and consistent with IFC’s 3.0 strategy, IFC will continue targeted upstream initiatives to develop a pipeline of private sector projects and new scalable platforms with a view to support the resumption of Foreign Direct Investment (FDI) and spur further domestic investments once the impact of the crisis has subsided.

- **MIGA response.** MIGA is planning a phased US\$6 billion program that includes partnering with the WB and IFC on a facility to enable purchase of urgent medical equipment, deploying its capital optimization product to ensure that financial institutions remain open for business, using its credit enhancement product to help trade and development banks maintain liquidity and working capital for small and medium enterprises, corporates and individuals, and expand credit enhancement for sovereigns.

10. **The WBG response will be fast and flexible and tailored at the country level to the nature of the shock and vulnerabilities that each IBRD and IDA country is facing.** Given the evolving impact of the crisis on country priorities, WBG support may need to depart from existing country strategies.<sup>7</sup> The WBG will share its global knowledge and provide policy advice to all its clients. Lending resources will be programmed in line with existing mechanisms, and for each country program, the WBG will seek to ensure that there is adequate burden sharing with other institutions, including the IMF and the MDBs. Activities financed by IBRD, IDA and IFC, or guaranteed by MIGA under the WBG COVID-19 Response will, where needed, be processed in line with the flexibilities embedded in operational policies, directives and procedures governing emergency response and crisis situations, including expedited and streamlined processes and procedures.

11. **The WBG will respond in close collaboration and coordination with the IMF, other MDBs and the broader international community, with the WBG focused on areas of its comparative advantage.** Past experience has shown that WBG financing instruments can play a critical complementary role to IMF programs supporting countries facing balance of payment crises. A common and coordinated policy dialogue by all development partners will go a long way

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<sup>7</sup> Country Partnership Frameworks (CPF), Country Engagement Notes (CEN) and Performance and Learning Reviews (PLR).

in preventing a fragmentation of government capacity and attention. The WBG will use its global convening power to bring together stakeholders, from the private sector and civil society, to support the design of the most effective policy responses that leverage public and private resources for crisis response and long-term development goals.

12. **To maximize the effectiveness of the response, the poorest and most vulnerable countries will need stepped up complementary support from development partners, and debt relief from creditors.** The poorest countries are likely to be hit hardest and will require substantial positive transfers to cope with the impact of the crisis. Many IDA countries are already in a difficult debt situation, leaving no space for an appropriate and robust response to the emergency that would ensure adequate spending on health, education, social safety nets and job creation. IDA will continue to support IDA-only countries at medium and high risk of debt distress with grant resources and will frontload up to US\$35 billion of IDA19 commitments in FY21. The Fund is also making significant increase in its support available to IDA countries<sup>8</sup>. But financing from IFIs and MDBs alone will not be sufficient to enable these countries manage the severe health, economic, and social impacts of the pandemic. The WB and the IMF are therefore calling on official bilateral creditors to suspend debt payments from IDA countries.<sup>9</sup> The WBG and the IMF will present during the forthcoming Spring Meetings for Governors' endorsement a proposal for suspending debt payments from IDA countries and reviewing longer-term debt sustainability in IDA countries.

### III. WBG Financial Capacity

13. **The recently concluded IBRD capital increase, the expected approval for the IFC capital increase and the record IDA19 replenishment sets the WBG up well for a strong response to the effects of the COVID-19 outbreak on borrowing members.** Current estimates indicate that the WBG has the capacity to provide financial support in the order of US\$150-160 billion<sup>10</sup> over the next 15 months (Q4FY20 and FY21), and US\$330-350 billion in the period up to end-June 2023.<sup>11</sup> The bulk of this capacity is approximately evenly spread across IBRD, IDA and IFC, with smaller amounts from MIGA and Trust Funds contributing the rest. This includes the US\$14 billion FTCTF to assist client countries in their immediate response to COVID-19.

14. **It should be noted that these capacity estimates are based on each institution's existing financially sustainable framework underpinned by Board-approved prudential capital adequacy policies.** While the estimates factor in current market conditions that already reflect the sharp negative market reactions to COVID-19 outbreak, given the continued uncertainty around the outbreak's full impact on markets as well as on client needs, the estimates are subject to

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<sup>8</sup> The IMF uses the PRGT-eligibility framework, which is broadly aligned with the World Bank's IDA practices, with minor differences explained by differences in the mandates of the two institutions and the timing of their respective review cycles.

<sup>9</sup> Joint Statement from the World Bank Group and the International Monetary Fund Regarding A Call to Action on the Debt of IDA Countries, March 25, 2020.

<sup>10</sup> Assumes full drawdown of a crisis buffer in FY21 of the same size as the FY20 crisis buffer (\$10 billion). The actual crisis buffer size for FY21 is still subject to Board discussion and decision.

<sup>11</sup> "The World Bank Group President David Malpass Remarks to G20 Leaders' Virtual Summit", March 26, 2020.



revisions as financial capacity will continue to be managed under prudential financial and risk management standards. Shareholders are encouraged to make every effort to stay on track with the pace of IBRD and IFC capital approvals, subscriptions and appropriations, as well as maintaining their scheduled contributions to IDA in order to reinforce the strong capacity of the WBG.