

## Impacts of COVID-19 on the Private Sector in Fragile and Conflict-Affected Situations

Prepared by the Fragile and Conflict Situations (FCS) / International Development Association (IDA) Coordination Unit, IFC, in collaboration with FCS Africa, Africa Region, IFC

The COVID-19 pandemic is having a significant negative impact on the private sector in developing economies, and businesses and individuals in fragile and conflict-affected situations are among the most severely affected. The pandemic has evolved rapidly from a health emergency to a global economic crisis, spreading through the real sector and posing growing risks to financial systems. Notable sector-level impacts include supply- and demand-based shocks to infrastructure and private healthcare; disruptions to imports, exports, and global and local value chains; and declining agribusiness activity that threatens food insecurity, all leading to financial sector instability. This note examines these sector-level impacts and provides recommendations for how the development community can address them. It advocates, among other things, for balancing short-term, sector-level relief and restructuring efforts with planning for a medium-term to long-term recovery, leveraging upstream interventions to “Build Back Better,” and collaborating with governments and development partners. As fragile and conflict-affected situations face further pandemic-related setbacks on top of already substantial hardships, it is critical that the global development community prioritize support to these vulnerable populations.

Fragile and conflict-affected situations (FCS) face many constraints that hamper and undermine their ability to effectively cope with a crisis of the magnitude of COVID-19. These include poor health systems, weak government capacity to manage a public health response, and limited water availability and related infrastructure that are crucial to healthcare. The pandemic’s impact is being felt across a range of sectors—from tourism and agribusiness to manufacturing and infrastructure. Disruptions to supply chains are particularly harmful to FCS, which are heavily dependent on food imports and humanitarian aid. The compounded impact of demand crises, disruptions to transportation and value chains, and limited availability of credit are forcing micro, small, and medium enterprises (MSMEs) to cease operations, which in turn increases nonperforming loans and threatens the stability of the financial systems in these nations.

The COVID-19 crisis also comes with social, public health, and economic shocks that can exacerbate conflict. The financial strain and compliance with lockdown orders can lay bare inequities and lead to ethnic tensions. The impact

on women is disproportionate, and lockdowns and economic stress can exacerbate domestic violence and harassment. The pandemic has also increased the vulnerabilities of forcibly displaced persons (FDPs) and their host communities due to limited access to quality healthcare systems and other key services, and the difficulty of practicing social distancing in refugee camps and urban settlements. The development community is mobilizing to address these issues, yet more is required to respond to the acute needs in FCS.

### The COVID-19 Pandemic and FCS

According to the World Bank, despite an unprecedented policy response, the COVID-19 crisis is expected to shrink the global economy by at least 5.2 percent in 2020—the greatest global contraction in 80 years.<sup>1</sup> Although encompassing diverse contexts, FCS countries are generally some of the poorest and most fragile and, due to these preexisting vulnerabilities, are likely to be among the most affected by the pandemic. Before COVID-19, real per-capita income in FCS economies was forecast to increase by an average of 1.4 percent in 2020; it is now expected to fall by 6.5 percent.<sup>2</sup>

FCS economies are also more dependent on remittances, so economic contractions in developed countries, the main source of remittances, will further compound income reductions in FCS countries. This will be pronounced in remittance-dependent regions such as Latin America and the Caribbean (Haiti, in particular) and Sub-Saharan Africa.

Moreover, COVID-19 and the economic crisis caused by the pandemic are converging with armed conflict and climate change to reverse hard-won gains in global poverty reduction and shared prosperity. In 2020, an estimated 88 million to 115 million people will be pushed into extreme poverty, as measured by the international poverty level of \$1.90 a day. An additional increase of 23 million to 35 million in 2021 could bring the total number of new poor to between 111 million and 149 million. The result is hundreds of millions of additional individuals in poverty, many from populations that had been relatively spared before the pandemic, and many more from populations subject to FCS hardships.<sup>3</sup>

FDPs and vulnerable communities have been hit hard by the loss of livelihoods and jobs caused by the pandemic. Across the Middle East and North Africa, the United Nations High Commissioner for Refugees and its partners received over 350,000 calls from refugees and internally displaced persons seeking urgent financial assistance to cover daily basic needs during the first five weeks of lockdown.<sup>4</sup>

Beyond projected impacts on incomes, the pandemic and related supply chain disruptions have exacerbated food insecurity in FCS economies, which are more dependent on food imports and generally experience more volatility in prices of food and other consumer goods. As the pandemic disrupts global transport and trade, agricultural supply chains will suffer and shortages will increase, causing higher inflation in FCS economies. By the end of 2020, the number of people in acute food insecurity is expected to double to 265 million.<sup>5</sup>

Overall, FCS economies have fewer means to respond to the pandemic. They face the same pandemic-related challenges as

other economies, but limited public finances and fragility impede their ability to implement coordinated and effective responses.

## Sectoral Impact Summaries

The COVID-19 pandemic has rapidly evolved from a health emergency to a global economic crisis, spreading throughout the real sector and posing growing risks to financial systems. Discretionary consumption and service-related sectors such as leisure and hospitality, travel, logistics, and meetings and conferences have experienced a sharp fall in demand.

Companies dependent on global supply chains in the automotive, electronics, agribusiness, and textile industries face significant disruptions to their operations. In the financial sector, banks and microfinance institutions are already affected by a liquidity crunch and are expected to report an increase in nonperforming loans. Companies in the manufacturing and construction industries continue to face shutdowns and scaled-back operations. The global economy has acutely felt the impact of massive layoffs, furloughs, and reduced compensation.

## Health

The effect of the pandemic on the health sector in FCS is expected to mirror, but be more extreme than, most low- and middle-income countries. Private health firms have experienced reduced demand during the pandemic, difficulty accessing personal protective equipment and other essentials, and a lack of public sector contracting to the private sector for COVID-19 treatment and diagnosis. Despite calls to increase health system capacity globally, measures intended to flatten the growth curve of COVID-19 cases are decreasing demand for care, resulting in revenue losses for private healthcare providers and forcing them to scale back business and lay off workers.<sup>7</sup>

This creates a risk of financial pressure—particularly on small businesses such as rural clinics and labs, which provide a large portion of healthcare in FCS economies—impeding efforts to provide basic healthcare services to vulnerable populations.<sup>8</sup>

**TABLE 1** Pre-COVID and Post-COVID estimates for selected economic variables for 2020<sup>6</sup>

	FCS Economies				Non-FCS Economies			
	Pre-COVID	Post-COVID	Change in forecasts (percentage points)	Change in forecast (as % of original estimate)	Pre-COVID	Post-COVID	Change in forecast (percentage points)	Change in forecast (as % of original estimate)
Real GDP growth (annual %)	3.7	-4.9	-8.5	-232%	4.6	-4.9	-9.5	-205%
Real GDP per capita growth (annual %)	1.4	-6.5	-7.9	-571%	3.4	-5.7	-9.1	-268%
Inflation, consumer prices (annual change, period avg.)*	8.0	32.1	24.0	299%	4.5	4.8	0.2	5%
Foreign Direct Investment, net inflows (% of GDP)	3.6	2.4	-1.2	-34%	3.5	2.4	-1.1	-33%

\*To prevent bias, the inflation figures exclude Venezuela—a fragile and macroeconomically unstable economy where inflation rates run as high as 100,000 percent. Data source: Macro Poverty Outlook, World Bank. Pre-COVID and post-COVID forecasts were released in January and October 2020 respectively.

For example, the Africa Healthcare Federation, an association for private healthcare firms on the continent, has reported that, on average, private hospitals' revenues have plummeted 40 percent since March 2020.

Health risks are significantly higher in FCS, with one Rand Corporation study finding that 20 of the 25 countries most vulnerable to outbreaks of infectious diseases are FCS.<sup>9</sup> Somalia, the Central African Republic, Chad, and South Sudan, for instance, face substantial COVID-19-related threats because of political instability and ineffective public health systems. COVID-19's burden on health systems translates to a negative outcome for public health writ large. According to data from the World Health Organization, UNICEF, Gavi, and the Sabin Vaccine Institute, routine immunization provision services have been substantially hindered by COVID-19 in at least 68 countries, including FCS, which is likely to affect roughly 80 million newborn children.<sup>10</sup> Fortunately, there is some evidence that these hindrances are abating with time as polio campaigns resume.<sup>11</sup>

## Finance

**The financial sector has taken a hit across FCS economies, with an expected increase in nonperforming loans.** Declines in loan demand and individual incomes are resulting in financial system shocks including ballooning nonperforming loans, insolvency filings, asset fire sales, and unnecessary liquidations.<sup>12</sup> In housing finance, the loss of income will increase bad debts, reduce capital ratios, put pressure on secondary mortgage markets, and create liquidity challenges.<sup>13</sup> As capital markets are heavily impacted by COVID-19-induced global systemic shock, SMEs and firms with significant debt in foreign currencies are highly vulnerable.<sup>14</sup> In Iraq, in response to financial sector stress, the central bank has announced a moratorium on interest and principal payments by SMEs through its directed lending initiative and has encouraged banks to extend maturities of all loans as needed.<sup>15</sup>

## Infrastructure

**The COVID-19 crisis is affecting infrastructure sectors in FCS countries through two main channels. These include shocks to supply and demand for infrastructure services and spillover effects.** COVID-19 containment measures are contributing to lower demand for most infrastructure services, causing revenue losses for infrastructure utilities and risks to short- and medium-term business continuity. Global demand for electricity is projected to contract by 5 percent in 2020.<sup>16</sup>

At the same time, several power distribution companies have declared “force majeure” and are halting payments to power producers. Infrastructure utilities in FCS economies have prioritized operational and emergency response expenditures, ahead of maintenance and capital expenditures, to ensure continuity of supply.

At a global level, this has resulted in revenue losses of up to 70 percent for water utilities in emerging market and developing economies (EMDEs). Most countries took measures to ensure continuity of supply for critical infrastructure services such as water during the pandemic. However, disruptions in global value chains have resulted in delays of crucial supplies, causing operational challenges for utilities. Water utilities have reported delays in the delivery of water treatment chemicals and personal protective equipment. The power sector has also faced a significant slowdown in manufacturing and delivery of equipment, particularly renewable energy technologies, resulting in project delays and higher construction costs.

Unprecedented disruptions to global trade, travel, and tourism will affect the viability of assets such as ports and airports. This will result in significant revenue declines in 2020 (relative to pre-crisis projections) for many airports in emerging market regions. Sharp declines in commodity prices will reduce fiscal space for public infrastructure investments in commodity-dependent countries.

## Food Security and Agribusiness

**Food insecurity looms as a major threat to FCS populations.** FCS economies are among the most dependent on imports for basic food security, so they are particularly susceptible to food shortages resulting from price distortions and the disruption of international trade and supply chains. The UN's World Food Programme has warned of acute famines due to the pandemic; it estimates that nine of the ten countries most vulnerable to food crises—and also impacted by conflict, economic crisis, and climate change—are FCS: Afghanistan, the Democratic Republic of the Congo (DRC), Haiti, Nigeria, South Sudan, Sudan, Syria, Venezuela, and Yemen.<sup>17</sup>

In addition, COVID-19 is expected to have an outsized impact on FCS economies already overburdened by climate shocks. Climate change—and particularly the increase in natural disasters—significantly impacts FCS contexts, with 80 percent of people who are affected by natural disasters already living in FCS.<sup>18</sup>

The agribusiness sector has experienced increased food supply chain disruptions with growing concern for smallholder farmers and access to inputs for upcoming seasons. Informal jobs are highly prevalent in agriculture, and such jobs tend to be the most vulnerable to loss of employment and/or unsafe conditions.<sup>19</sup> Additionally, SMEs, which provide most production and post-farm agricultural services in FCS markets, face financial challenges as a result of the economic shutdowns mandated for pandemic control. According to a recent survey, the pandemic has also caused disruptions to food production, supply chains, and financing in countries like the DRC, Côte d'Ivoire, and Mozambique. Farmers there have reported negative impacts on their production and livelihoods and evidence of supply-chain breakdowns—in terms of trader

scarcity, transport disruptions, and market closures—with increased scarcity in crucial inputs, labor, access to trade credit, and bank credit.<sup>20</sup>

In the absence of safety-net programs, widespread business failures will hollow out agribusiness sectors. The loss of jobs and incomes is reducing agriculture-related demand and threatening gains made over the past decade in poverty reduction and improved nutrition in South Asia and Sub-Saharan Africa.<sup>21</sup>

### Value Chains, Imports, and Exports

The pandemic is expected to cause major disruptions to imports, exports, and local and global value chains, affecting many firms and their employees in FCS. Since the outbreak began, Myanmar has witnessed widespread supply chain disruptions in the garment sector (responsible for a quarter of exports), international trade, and agriculture (responsible for around half of employment), resulting in mass layoffs and factory closures. As a result, Myanmar's current account balance deficit is expected to expand from 2.6 percent to 4 percent of GDP, as exports decline in the gas and garment subsectors, and an external financing gap of \$1.7 billion was expected by October 2020.<sup>22</sup> Nigeria, meanwhile, logged its second straight quarter with a trade deficit in June 2020, after 12 straight quarters of surpluses, as crude oil exports were 12.8 percent lower than a year prior due to COVID-19-related reductions in international demand.<sup>23</sup> According to a joint World Bank-IFC-United Nations Industrial Development Organization survey of Somali enterprise, 71 percent of firms experienced disruptions to their supply chains.<sup>24</sup>

Small, informal firms are most vulnerable and have limited access to resources to mitigate the impacts of the crisis. As a result, impacts on employment, both formal and informal, are expected to be severe. According to the COVID-19 Business Pulse Survey of Afghani businesses, 38 percent of firms marked the closure of international borders as the most significant driver of disruption to business operations and their value chains, limiting access to raw materials, immediate inputs, and finished goods needed for trade or production. While vulnerability is felt by Afghani firms of all sizes, it is considerably higher among firms with at least one female shareholder, exporting firms, and businesses with a larger share of female workers.<sup>25</sup>

In Lebanon, which has been in a state of emergency for most of 2020, almost half the working population is in sectors with high job insecurity, while the informally employed—who make up almost two-thirds of workers in risk-sectors—and refugees and domestic migrants face heightened discrimination and increased challenges impacting their employment and livelihoods.<sup>26</sup> In Iraq, similarly, the crisis has disproportionately affected youth and informal workers, with one International Labour Organization survey noting that roughly a quarter

of participants are now unemployed as a result of the crisis, while 36 percent of young workers face unemployment.<sup>27</sup> In Colombia, Venezuelan refugees and migrants have attempted to return home because there are no income opportunities available during the lockdown.<sup>28</sup>

### Information Communications Technologies and Digital Services

The COVID-19 crisis highlights the important role that digital connectivity can play in building resilient companies and societies. According to the World Bank, digital transformation in Africa could add two percentage points to annual growth and reduce continent-wide poverty by one percentage point.<sup>29</sup> Middle-income countries have seen notable increases in the use of digital technology to obtain access to goods and services during the pandemic, with governments increasing their use of digital connectivity to deliver critical public services such as healthcare and social transfers. But in FCS, the lack of digital infrastructure impacts the private sector's ability to develop rapid solutions to meet growing demand by the quarantined populace. Digital infrastructure in FCS economies lags in comparison to their non-FCS counterparts. Data from the World Bank shows that in 2017—the most recent year for which data is available—only 24 percent of the population in FCS used the Internet from any location and on any device, compared to 45 percent in other low- and middle-income non-FCS countries. In 2018, there were about 65 mobile telephone subscriptions per 100 people on average in FCS, compared to 102 subscriptions per 100 people in similar non-FCS economies.<sup>30</sup> Digitalization can bridge the gap between uneven progress in the realms of governance and commercial and social development, allowing for disenfranchised communities to gain newfound access to goods and services, and building business continuity resilience in the face of shocks.<sup>31</sup>

### Private Equity

According to the report *Foreign Investor Perspectives and Policy Implications, 2017-2018 Global Investment Competitiveness*, foreign direct investment (FDI) in FCS represents just 1 percent of global FDI flows.<sup>32</sup> In FCS, where opportunities are already scarce, the pandemic is expected to slow private equity (PE) transaction volumes as capital will be deployed more slowly and prudently. In a tighter lending environment, PE firms will operate with a more conservative capital structure and reduce leverage. The ability of the funds market to withstand the current economic crisis and the prospect of capital outflows remain largely untested in FCS, where the markets are small and not yet developed. A setback in the market-creation process for smaller PE firms, particularly generalist firms and those without a differentiated strategy in a downturn, is expected.

## BOX 1 Investment Needs

Despite the challenges, there are opportunities for fund managers and firms to get involved and leverage their capital for the public good in pandemic-affected FCS. In the wake of the COVID-19 crisis, some manufacturing firms are seeking to transition to produce personal protective equipment, which creates a new need for financial support and skills training from the private sector. In addition, as humanitarian supply chains are roiled by pandemic-related disruptions, there is a need to help firms create linkages into the value chains of humanitarian operations. Financial support to microfinance institutions and equity stakes in strategic SME on-lending banks could help provide emergency cash infusions to ailing small businesses.

## Impacts on Gender and Conflict and Security

Globally, about 264 million women live in FCS countries,<sup>33</sup> where they face multiple challenges of poverty, gender-based violence, and discrimination founded in inadequate legal protection. These factors are only heightened by the COVID-19 pandemic.<sup>34</sup> Evidence from past epidemics indicates resources are often diverted from routine health services, further reducing the already limited access of many girls and young women to sexual and reproductive health services, as well as maternal, newborn, and child health services.<sup>35</sup>

Moreover, as the COVID-19 crisis increases economic and social stress, restricts movement, and causes social isolation, gender-based violence is increasing. Many women are being forced to quarantine at home with their abusers while services to support survivors are being disrupted or made inaccessible, resulting in reports of surges in gender-based violence of more than 25 percent in some countries with reporting systems.<sup>36</sup> Compounded economic impacts, meanwhile, are being felt acutely by women and girls who generally earn less, save less, and hold insecure jobs or live close to poverty, all of which increase their financial dependence on men. Informal workers, most of whom are women and lack access to credit and social safety nets, account for more than two-thirds of the workforce in developing countries, ranging from 60 percent in Latin America to over 90 percent in Sub-Saharan Africa and South Asia.<sup>37</sup>

Formal sector women's jobs are also at risk during the pandemic. In particular, women-led SMEs are at risk as they often have smaller businesses operating in lower-margin industries and are more susceptible to demand disruptions than the average small business (see Box 2).<sup>38</sup>

The COVID-19 crisis compounds social, economic, and health vulnerabilities, with the potential for significant impacts on existing FCS dynamics. The confluence of the pandemic with long-entrenched FCS conditions—weak state capacity, a strained social contract, active conflict, tenuous political agreements, and forced displacement—result in new crises that

threaten to reverse development gains and to exacerbate the already precarious circumstances of vulnerable groups.

The UN-OCHA COVID-19 risk index, which reflects both vulnerability and response capacity,<sup>39</sup> highlights that the 10 countries most at risk of COVID-19—with Somalia, Afghanistan, and the DRC the top three<sup>40</sup>—host a combined 17.3 million internally displaced persons.<sup>41</sup> The COVID-19 crisis risks deepening societal tensions and inequality with relation to these groups. In Cameroon, for example, a breakdown of inter-community trust is resulting in an increase in attacks on citizens suspected of carrying the COVID-19 virus. The Islamic State launched attacks in Afghanistan and Niger after publicizing their intention to take advantage of the situation.<sup>42</sup>

Security and political dynamics are volatile in many FCS economies, with increased risk of instability. In Burkina Faso, COVID-19 and ongoing insecurity issues have increased forced displacement and disrupted government services in the country's northern region.<sup>43</sup> What's more, the interaction of COVID-19 and violent conflict could negatively impact private sector operations in FCS. The insurgency of Islamic State-linked militants that emerged in 2017 in Mozambique's gas-rich province of Cabo Delgado has escalated significantly. Between January and April 2020, the Armed Conflict Location & Event Data Project recorded 101 violent incidents, marking a 300 percent increase from the same period last year.<sup>44</sup> Under the impact of a combination of crashing global energy prices and imposition of COVID-19-related work and travel restrictions affecting personnel and supplies, energy projects in the region are experiencing delays. While the pandemic is a short-term threat in nature, the insecurity of the

## BOX 2 COVID and Women-owned SMEs in Somalia

COVID threatens women's empowerment and household welfare in Somalia, where women currently provide, on average, 70 percent of household income. Somali women are engaged in the informal sector, microenterprises, agricultural production, and livestock. The majority of micro-businesses are owned by women, who constitute 60 percent of businesses ownership. The curfew in Mogadishu has significantly reduced the time women have to sell tea and milk, particularly at night, which is their peak business period. Reduced mobility in the city has reduced the volume of trade, with women recording very low sales or shutting down their tea businesses. Those retailing khat and candies, who largely depend on the airport and seaport for their supplies, have gone out of business because of airport closures. Businessmen who normally lend women goods and money for trade have suspended their services, putting women out of business. Source: Input provided by FCS Africa.

region will persist and risk turning into a full-blown civil war, making the prospect of a long-awaited gas boom precarious.

### The Donor Community and IFC Response to Date

The development finance institution (DFI) community has sprung into action to address the negative impacts and externalities of the COVID-19 pandemic. DFIs have launched responses that include the deferment of debt-service payments, the provision of short-term liquidity for working capital for financial intermediaries to on-lend to struggling firms, and trade finance guarantees. Other measures include providing additional financing to existing clients hampered by the pandemic and plans to invest in health resilience in EMDE client countries. The European Bank for Reconstruction and Development has announced that it would be dedicating all of its activity in 2020–21, worth €21 billion, to the COVID-19 response, including €4 billion in working capital.<sup>45</sup> In response to COVID-19, Norfund keeps up with the daily business of its investments, provides support to affected portfolio companies, and helps prepare proactive measures as needed.<sup>46</sup>

The Trade and Development Bank (TDB), for its part, is undertaking special initiatives targeting continued access to trade and development financing, focusing specifically on priority medical supplies and other critical commodities.<sup>47</sup> The U.S. International Development Finance Corporation (DFC) has approved the new Rapid Response Liquidity Facility, which provides up to \$4 billion in additional financing for existing DFC projects stymied by the pandemic. In addition, the DFC has announced a call for proposals under its Health and Prosperity Initiative, under which it plans to invest up to \$2 billion to bolster health resilience in its developing client countries.<sup>48</sup>

In March, IFC approved its \$8 billion Fast Track COVID-19 Facility to respond to the trade and real-sector impacts on existing clients. It is ensuring flexibility for its clients within its current Operations Procedures, and it continues to provide essential advisory support, including remote advice for risk management. Of the \$4 billion that has been committed to date, close to half is expected to benefit people in the poorest countries and fragile states, with the remainder helping to support the fight against COVID-19 across other EMDEs. In the next, medium-term response phase, IFC is exploring ways to help in the recovery and rebuilding phase for both new and existing clients, which includes both COVID-19 “Base of the Pyramid” and Global Health Value Chain programs.

While these efforts made by DFIs are significant, they are spread among many countries and are not focused specifically enough on FCS. Considering the substantial hardships already faced by FCS economies, a more tailored and nuanced approach is required to adequately address the needs of these vulnerable populations.

### Recommendations for the DFI Community and Development Partners

The development community’s FCS COVID-19 crisis response and recovery interventions should be guided by appropriate adaptation to COVID-19 circumstances. The recent World Bank Group Crisis Response Approach Paper<sup>49</sup> and the Independent Evaluation Group’s Guide<sup>50</sup> provide a framework for the COVID-19 response in FCS. Key guidelines to inform DFI responses in FCS contexts consist of: (i) strengthening community engagement; (ii) preserving and strengthening key institutions and services; (iii) focusing support and giving special consideration to impacts on vulnerable groups such as women, youth, refugees, internally displaced persons, and host communities; (iv) mitigating FCS risks and vulnerability and strengthening sources of resilience by linking emergency responses, strategy, and operations to fragility and conflict sensitive recovery; and (v) building diagnostic work and the sequencing of the response on country strategic priorities and ongoing country programing.

**Balancing short-term relief and restructuring efforts while preparing for medium-to-long-term recovery is key.** DFI responses to the COVID-19 crisis would do well to follow the example of the WBG approach stipulated in the Crisis Response Approach Paper, which categorizes responses into three separate but related phases: Relief, Restructuring, and Resilient Recovery.<sup>51</sup> In line with this approach, DFI efforts in the immediate-to-short term should provide much-needed crisis and emergency support, while also providing plans for the medium-to-long-term recovery reconstruction of pandemic-affected FCS economies in the aftermath.

**In the health sector, efforts should focus on collaboration with decision makers at the country and global levels who are able to identify firms that can address the need for training healthcare workers to build capacity.** This approach can help mitigate the insolvency of private healthcare providers and the long-term degradation of healthcare provision in FCS, while addressing access to healthcare by prioritizing funding to firms that can deliver and contribute to affordable and improved health outcomes.<sup>52</sup>

**In the financial sector, DFIs should collaborate to support local banks.** In addressing the needs of SMEs, in addition to providing indispensable direct support to small local sponsors during this time of crisis, DFIs will look to help expand the reach of microfinance institutions and central bank programs focused on SME financial support. Also, funding support is needed in local currencies and at affordable rates. Capital support to microfinance institutions as they absorb pandemic-related losses is sorely needed, as well as immediate support to productive SMEs. Financial services also need to be extended to FDP and refugee-owned businesses.

DFIs can leverage additional blended concessional finance, work upstream, and collaborate with multilateral development banks to support infrastructure in FCS during and after the crisis. FCS countries facing elevated liquidity constraints during and after COVID-19 will need: (i) DFI structuring, mobilization, political-risk mitigation and expertise to support resilience and recovery efforts; (ii) increased use of risk mitigation instruments, liquidity support, and concessional financing; (iii) continued focus on upstream support to improve resilience and support project development that will ready the market for investments post-recovery; and (iv) sustained MDB collaboration, especially in sectors that remain largely under public management.

**Livelihoods and crucial service provision should be protected by expanding advisory and financing to manufacturing, food imports, and value chains.** DFIs can play a key role helping manufacturing sector clients transition their production from apparel to Personal Protective Equipment,<sup>53</sup> scaling up advisory engagements along with complementary concessional funding across FCS to safeguard both public health and livelihoods. Moreover, as humanitarian aid supply chains are disrupted by the impact of COVID-19, DFI advisory engagements can begin exploring ways to help FCS manufacturing clients in countries affected by forced displacement repurpose their operations to deliver goods and services to support logistics, transportation, and the supply of humanitarian aid. DFIs can also provide training for sectoral transitions for workers operating in heavily impacted sectors like food services.<sup>54</sup>

**In addition to sector-focused support, DFI support can go beyond enterprises and the financial sector and include guiding governments in FCS contexts to elaborate effective COVID-19 response programs.** For example, IFC has been helping the government of Côte d'Ivoire operationalize its newly established private sector support funds for both large enterprises and SMEs.

**Development actors should work together to prepare for resilient recovery, including through leveraging dialogue with regional partners and sub-regional platforms.** While DFIs' immediate responses are rightly focused on addressing short-term needs, they should also focus on planning for resilient recovery after the crisis has subsided. In addition,

DFIs can maintain robust dialogue with existing clients and key stakeholders (such as chambers of commerce) to stay abreast of developments on the ground, allowing DFIs to better support pandemic adaptation and anticipate new opportunities for recovery and beyond. Moreover, DFIs can explore modalities for helping manufacturing clients in FCS repurpose their operations to deliver humanitarian aid supplies in the wake of disrupted supply chains.

**DFIs should look to increase engagement with potential new clients to support the resilient recovery process.** In the current, immediate phase of the COVID-19 response, DFIs are working primarily with existing clients, due to the difficulties of engaging with new clients while travel restrictions are in place. Yet engaging new clients should be a focus during upstream program development, including identifying private sector actors that can support recovery efforts in FCS markets.

**Upstream interventions should be leveraged to “Build Back Better” in the face of myriad risks and shocks.** Working upstream can help create the conditions for future capital flows—domestic, foreign, and private—into productive investment in FCS economies. Identifying reforms that unlock private investment can help bring sorely needed capital to recovering FCS countries and create projects for prospective investors. In addition, “build back better”—which means not only restoring economies and livelihoods, but also securing long-term prosperity that is resilient to new shocks—will be necessary to combat vulnerability and low state capacity to protect FCS populations from climate shocks.<sup>55</sup>

**Finally, it is critical for the global development community to remain focused on supporting FCS.** In the era of COVID-19, while an unprecedented amount of global attention is being paid to the crisis and its impact—mass unemployment, damaged financial markets, and disruptions to global trade—there is a danger that the most vulnerable of the world's population could be overlooked. As noted in the *Poverty and Shared Prosperity 2020* report, conflict—in confluence with the pandemic and climate change—threatens to drive FCS populations further into extreme poverty.<sup>56</sup> As such, it is important that enough concern and donor support is given to those whose lives have already been adversely affected by fragility and conflict, as they now face further setbacks during the pandemic.

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**Please see the following additional reports and EM Compass Notes about responses to COVID-19 and about reaching unserved and underserved populations in emerging markets:** *Artificial Intelligence in Emerging Markets—Opportunities, Trends, and Emerging Business Models* (report, September 2020); *Lessons for Electric Utilities from COVID-19 Responses in Emerging Markets* (Note 90, September 2020); *Social Bonds Can Help Mitigate the Economic and Social Effects of the COVID-19 Crisis* (Note 89, August 2020); *Leveraging Inclusive Business Models to Support the Base of the Pyramid during COVID-19* (Note 84, May 2020); *What COVID-19 Means for Digital Infrastructure in Emerging Markets* (Note 83, May 2020).

- <sup>1</sup> World Bank Group. 2020. *Global Economic Prospects*, June 2020.
- <sup>2</sup> Note that in this section, the comparative analysis between FCS and non-FCS economies includes only low- and middle-income countries. High-income countries are excluded from the analysis. Note also that the analysis is based on forecasts from the World Bank Macro Poverty Outlook (MPO) data, which provides historical data as well as three-year forecasts of growth trends for the global economy.
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