



How Firms are Responding and Adapting During COVID-19 and Recovery

**OPPORTUNITIES FOR ACCELERATED INCLUSION
IN EMERGING MARKETS**

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Creating Markets, Creating Opportunities

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CONTENTS

11 | FOREWORD

13 | EXECUTIVE SUMMARY

RESPONSES ACROSS SECTORS

17 | **CHAPTER 1** Leveraging Inclusive Businesses Models to Support the Base of the Pyramid during COVID-19

25 | **CHAPTER 2** Impacts of COVID-19 on the Private Sector in Fragile and Conflict-Affected Situations

34 | **CHAPTER 3** The Impact of COVID-19 on Disruptive Technology Adoption in Emerging Markets

44 | **CHAPTER 4** Social Bonds Can Help Mitigate the Economic and Social Effects of the COVID-19 Crisis

50 | **CHAPTER 5** Impacts of the COVID-19 Crisis on Private Equity Funds in Emerging Markets

58 | **CHAPTER 5 APPENDIX** Summary of PE Trends Across Regions

SECTOR-SPECIFIC RESPONSES

61 | **CHAPTER 6** What COVID-19 Means for Digital Infrastructure in Emerging Markets

68 | **CHAPTER 7** Lessons for Electric Utilities from COVID-19 Responses in Emerging Markets

74 | **CHAPTER 8** When Trade Falls—Effects of COVID-19 and Outlook

85 | **CHAPTER 9** How the Tourism Sector in Emerging Markets is Recovering from COVID-19

GENDER-SPECIFIC RESPONSES

95 | **CHAPTER 10** COVID-19 and the Insurance Industry: Why a Gender-Sensitive Response Matters

104 | **CHAPTER 11** Childcare in the COVID-19 Era—A Guide for Employers

109 | **CHAPTER 12** COVID-19 and Gender-Based Violence: Workplace Risks and Responses—A Guidance Note for Employers

115 | ENDNOTES

131 | ADDITIONAL RESOURCES AND FURTHER READING

132 | LIST OF PREVIOUSLY PUBLISHED NOTES INCLUDED AS CHAPTERS IN THIS REPORT

Tables, Boxes, and Figures

TABLE 2.1 Pre-COVID and Post-COVID Estimates for Selected Economic Variables for 2020	26
TABLE 3.1 Summary of COVID-19 Shocks and Potential Technology Adoption in Emerging Markets	39
TABLE 5.1 Elements of the Private Equity Business Model Impacted by COVID-19 and Key Risk Factors	53
TABLE 5.2 VC Fund Activities Impacted by COVID-19 and Key Risk Factors	55
TABLE 5.3 Post-COVID-19 Real Sector Megatrends and Key Features	56
TABLE 6.1 Potential Demand and Supply Shocks of COVID-19 on Digital Infrastructure	63
TABLE 6.2 Relative Magnitude of COVID-19 Shocks on Digital Infrastructure	64
TABLE 6.3 COVID-19 Impacts on Digital Infrastructure—Summary of External Analyst Reports	67
TABLE 8.1 2019 Merchandise Trade Volume by Region (annual percentage change)	75
TABLE 8.2 World Trade Volume Projections	76
TABLE 9.1 Number of COVID-19 Cases and Deaths by Country, Territory, and Area	88
BOX 1.1 Gender-Sensitive COVID-19 Prevention Campaigns	18
BOX 1.2 The Gender Digital Divide	21
BOX 1.3 What are the Biggest Needs at the Base of the Pyramid?	24
BOX 2.1 Investment Needs	29
BOX 2.2 COVID-19 and Women-owned SMEs in Somalia	30
BOX 3.1 Key Findings	35
BOX 4.1 The Social Bond Principles (SBP)	45
BOX 4.2 IFC and Social Bonds	45
BOX 5.1 Key Findings	51
BOX 8.1 Key Takeaways	75
BOX 10.1 COVID-19's Impact on Women's Risk Profiles	96
BOX 10.2 COVID-19's Impact on Women-owned Small and Medium Enterprises	97
BOX 10.3 Financial Support for Agents	99
BOX 10.4 Insurance Regulations	102
BOX 11.1 Engage Actively in Shaping the Future	105
BOX 11.2 For Childcare Centers Catering to Children of Essential Staff, the Following Steps Are Necessary	106
BOX 11.3 A Note on Connectivity and Access	106
BOX 11.4 A Note on Offering Kindness, Compassion, Communication, and Understanding	108

FIGURE 3.1 Excess Quarterly Growth in Internet Use, Q1–2020 (percentage point)	36
FIGURE 4.1 Historical Bond Issuances (2013–2020)	45
FIGURE 4.2 Social Bond Issuances Per Type of Issuer (2017–2019)	45
FIGURE 4.3 COVID-19 Could Herald a Social Bond Boom	46
FIGURE 4.4 MDBs Drove Strong Q1 Social and Sustainability Bond Volumes	48
FIGURE 5.1 Investment and Fundraising Trends in Emerging Markets, Based on Annual Average Volumes 2008–2018	52
FIGURE 7.1 Composition of Measures in 67 Sample Countries	69
FIGURE 7.2 Number of Relief Measures in 67 Sample Countries by Region	70
FIGURE 8.1 Merchandise Trade Volume is Predicted to Slump in 2020	77
FIGURE 8.2 The Economic Effects of the Pandemic Spread Through Trade	78
FIGURE 8.3 World Merchandise Trade Trends (from 1Q08 to 2Q20)	79
FIGURE 8.4 Freight Indicators and Global PMI Data Reported Exceptional Decreases: Container Throughout Index (RWI)	80
FIGURE 8.5 Freight Indicators and Global PMI Data Reported Exceptional Decreases: Global PMI and New Export Orders from May 2017 to May 2020	80
FIGURE 9.1 International Travel Controls During the COVID-19 Pandemic as of May 1, 2020	85
FIGURE 9.2 The Impact of Three Crises on World Tourism Arrivals	86
FIGURE 9.3A Tourism (Direct) as a Share of GDP (%)	87
FIGURE 9.3B Tourism’s Share of Total Exports (%)	87
FIGURE 9.4 Recoveries Following SARS, Ebola, and the Global Financial Crisis	90
FIGURE 9.5 World Merchandise Trade Volume, 2000–2022	91
FIGURE 11.1 Supporting Employees	105
FIGURE 12.1 COVID-19 Creates Gender-Based Violence Risks for Workplaces	110

Abbreviations and Acronyms

ACOS	Average Cost of Supply	FX	Foreign Exchange
AFCFTA	African Continental Free Trade Area	GBG	Gender Business Group
AFDB	African Development Bank	GBV	Gender-Based Violence
CDC	Centers for Disease Control and Prevention	GDP	Gross Domestic Product
CEE	Central and Eastern Europe	GP	General Partner
CGDEV	Center for Global Development	GVC	Global Value Chain
CIS	Commonwealth of Independent States	HBW	Home-Based Work
CRM	Customer Relationship Management	HGSE	Harvard Graduate School of Education
CTKS	Cargo Tonne Kilometres	HIC	High-Income Country
DFI	Development Finance Institution	IADB	Inter-American Development Bank
DFC	U.S. International Development Finance Corporation	ICMA	International Capital Market Association
DISCOM	Distribution Company	IDA	International Development Association
DPI	Distributions to Paid-In Capital	IFC	International Finance Corporation
DRC	Democratic Republic of the Congo	ILO	International Labour Organization
DSM	Demand Side Management	IMF	International Monetary Fund
DSRA	Debt Service Reserve Account	IPO	Initial Public Offering
ECLS	Extra Corporeal Life Support	IPP	Independent Power Producer
EMDES	Emerging Markets and Developing Economies	IRDAI	Insurance Regulatory Development Authority of India
EM	Emerging Market	IRR	Internal Rate of Return
EMPEA	Emerging Markets Private Equity Association	ISP	Internet Service Provider
ESEA	East and Southeast Asia	ITU	International Telecommunication Union
FCA	Financial Conduct Authority	KFF	Kaiser Family Foundation
FCS	Fragile and Conflict-Affected Situations	LIC	Low-Income Country
FDI	Foreign Direct Investment	LP	Limited Partner
FDPS	Forcibly Displaced Persons	MDB	Multilateral Development Bank
FI	Financial Institution	MENA	Middle East and North Africa
FIG	Financial Institutions Group	MMS	Multimedia Messages
FINTECH	Financial Technology	MNO	Mobile Network Operator
FM	Fund Manager	MOH	Ministry of Health (Brazil)
		MSME	Micro, Small, and Medium Enterprise

NBER	National Bureau of Economic Research	TDB	Trade and Development Bank
OECD	Organisation for Economic Co-operation and Development	UK	United Kingdom
PE	Private Equity	UNCTAD	United Nations Conference on Trade and Development
PIIE	Peterson Institute for International Economics	UNFPA	United Nations Population Fund
PIPE	Private Investments in Public Equity	UNICEF	United Nations Children's Fund
PMI	Purchasing Managers' Index	UN WOMEN	United Nations Entity for Gender Equality and the Empowerment of Women
PPA	Power Purchase Agreement	UNWTO	World Tourism Organization
PPE	Personal Protective Equipment	US	United States
PPP	Public-Private Partnership	USD	US Dollar
RAMED	Regime d'Assistance Medicale	VC	Venture Capital
RMG	Readymade Garment	WBG	World Bank Group
RWI	Rheinisch-Westfälisches Institut für Wirtschaftsforschung	WBL	Women, Business and the Law
SBP	Social Bond Principle	WEF	World Economic Forum
SDG	Sustainable Development Goal	WHO	World Health Organization
SME	Small and Medium Enterprise	WPP	Wind Power Producer
SSA	Sub-Saharan Africa	WTO	World Trade Organization
SSAS	Sovereigns, Supranationals, and Agencies	WTTC	World Travel and Tourism Council
STEM	Science, Technology, Engineering and Mathematics	YOY	Year-on-Year

Note: All dollar amounts are U.S. dollars unless otherwise indicated



FOREWORD

The Covid-19 pandemic has caused unprecedented global disruption to economies and livelihoods. For many, the impact on health and incomes has been devastating—and disproportionately so for vulnerable groups in society, women, the poor, and those with no financial buffers. Among the many pathologies associated with the pandemic, there has been a marked increase in violence against women, and caregiving has forced many more women than men out of the labor market.



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The private sector has not been spared. Many firms are not surviving. Apart from revenue losses and increased costs, firms have faced value chain disruptions, funding withdrawals, and severe trade contraction as a result of the crisis. Firms in face-to-face service industries such as travel and tourism have been hit especially hard. And micro, small, and medium enterprises (MSMEs) and women-led small and medium enterprises (WSMEs) have been disproportionately affected: since they often have limited access to finance and digital connectivity, they have been less able to adapt to market disruptions. The results are widening disparities in emerging markets, including a further increase in the financial and digital divides.

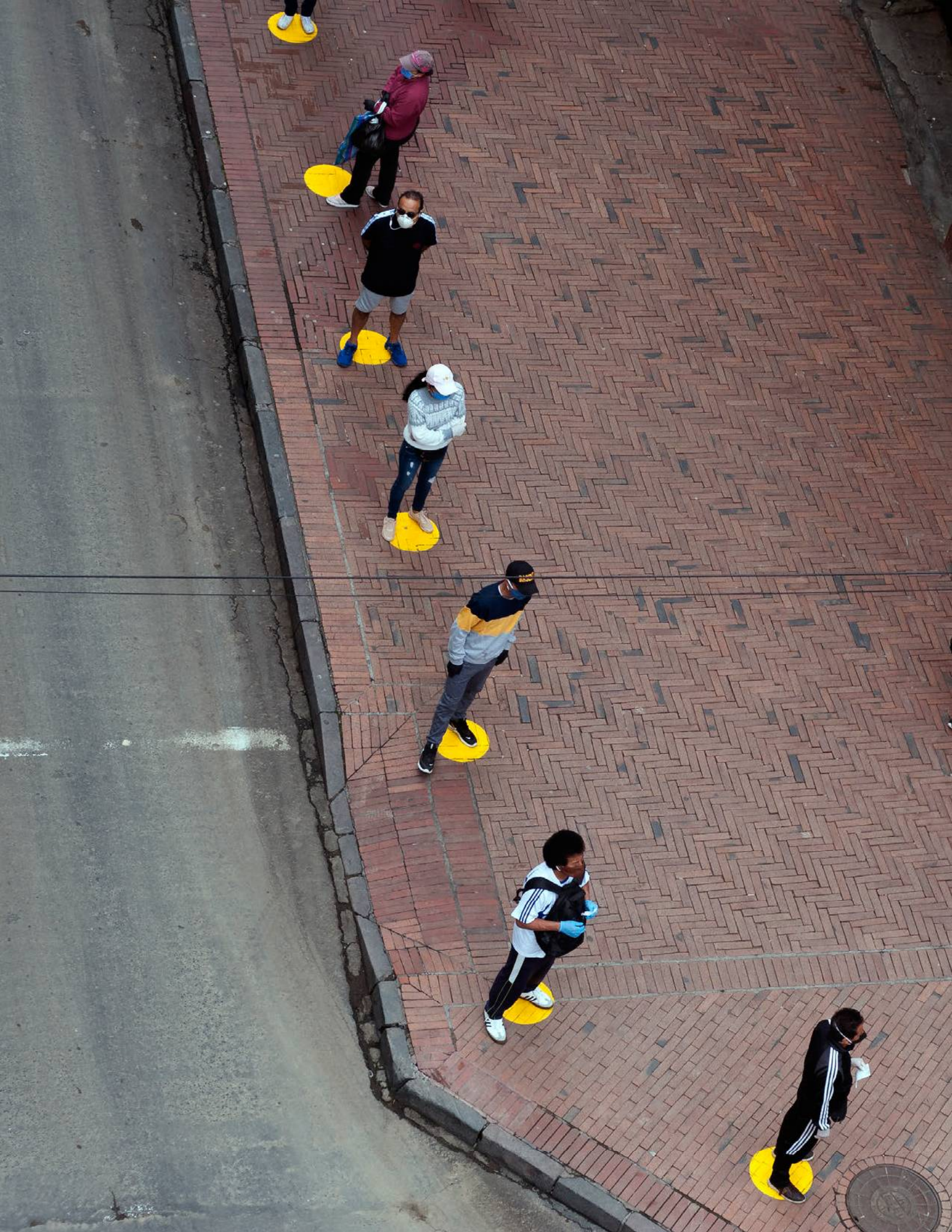
Fortunately, there are plentiful opportunities for the private sector to respond, supporting immediate recovery and driving strategic growth going forward, while also setting the stage for “building back better” post-crisis. This report describes effective private sector responses in sectors such as digital infrastructure, trade, power, and tourism, as well as methods that cut across sectors, from inclusive business models to disruptive technologies, social bonds, and private equity. Responses that focus on gender, childcare, and domestic violence will be critical, and the private sector can and should make effective contributions in these areas as well.

The crisis has brought home the reality that inclusive approaches must be part and parcel of a strong and effective pandemic response. The evidence in this report is encouraging. Well-established firms have used innovation and strategic know-how to help smaller companies navigate the crisis and build up resilience.

Inclusive businesses can turn underserved populations at the base of the economic pyramid into dynamic consumer markets and diverse new sources of supply. And businesses can play a vital role in amplifying the public and humanitarian response by utilizing technology platforms and grassroots communication methods to deliver crucial health information and supplies.

Governments in advanced and some middle-income countries have deployed impressive fiscal and monetary firepower in response to the crisis, but funding available to mitigate the impact of the pandemic in poorer countries has been limited. Development finance institutions have stepped partly into the breach. Early on, the IFC Board approved \$8 billion in fast-track financing to sustain businesses, lend to women-led enterprises, and preserve jobs for MSMEs, with a strong emphasis on supporting clients in low-income and fragile and conflict-affected countries. More recently, IFC launched a \$4 billion Global Health Platform in support of urgent health services, equipment, and investment. Work is underway on restructuring vehicles, mobilization platforms, and facilities directed at individual, hard-hit sectors.

As the world looks toward the post-pandemic recovery, there is a need to balance short-term relief with long-term strategy. We need to build back rapidly, but also in a socially and environmentally sustainable manner. The data and examples in this report illustrate effective COVID-19 responses. With private sector ingenuity and strong stakeholder support, we can achieve a resilient and inclusive recovery. ■



EXECUTIVE SUMMARY

COVID-19, which began as a health crisis in early 2020, has rapidly evolved to become an unprecedented economic crisis affecting global, national, and regional economies and billions of individuals around the world. This report analyzes the widespread implications of the crisis on industry sectors, businesses, individuals, families, and communities. It closely examines evidence and data from business sectors and segments of society that may face challenging paths to recovery, including the most vulnerable firms and individuals in emerging markets that are likely to experience continuing hardship and specific difficulties coping with the crisis. And it highlights opportunities for the private sector to respond, to support a vigorous recovery and to “build back better.”

The first section of the report (Chapters 1 to 5) addresses issues that cut across sectors, as well as ways the development community can join with the private sector to help impacted communities and sectors recover and rebuild. The second section (Chapters 6 to 9) focuses on sector-specific responses to the crisis. The final section (Chapters 10 to 12) attends to gender inequities, how they have been aggravated by the crisis, and potentially effective remedies.

Responses Across Sectors

CHAPTER 1: Leveraging Inclusive Businesses Models to Support the Base of the Pyramid During COVID-19

COVID-19 has had a disproportionate impact on individuals at the base of the economic pyramid, with the crisis expected to reverse many of the gains made in reducing global poverty over the past two decades. Firms can play a substantial role in mitigating that reversal by ensuring that their products and services are accessible to low-income populations and the most vulnerable in particular. While some businesses have shown agility in enhancing the inclusiveness of their business models and operations, much more can be done, and on a wider scale. Following the successes of pioneer firms in adapting their communications, distribution, and pricing and payment modalities, among others, other firms may follow suit.

CHAPTER 2: Impacts of COVID-19 on the Private Sector in Fragile and Conflict-Affected Situations

An adequate government and international community response to the COVID-19 crisis is critical to mitigating

its impact on individuals and businesses. For fragile and conflict-affected situations (FCS), the crisis exacerbates an already precarious state and substantial hardships that preceded the crisis, including poor health systems, weak government capacity, limited infrastructure essential to healthcare and other basic human needs, and difficult operating environments for the private sector. Given the widespread implications of the crisis on the real sector and the resulting spillovers onto the financial sector, there is a serious need to mobilize the development community to adopt a more robust and tailored approach to addressing the needs of the private sector and vulnerable populations in FCS.

CHAPTER 3: The Impact of COVID-19 on Disruptive Technology Adoption in Emerging Markets

As a result of the COVID-19 crisis, emerging markets have accelerated their adoption of disruptive technologies, both in their attempts to respond the crisis with appropriate healthcare and government services, and their need to ensure the continuity of necessary activities—from financial transactions and commerce to education, healthcare, and manufacturing—during COVID-19-related lockdowns and social distancing. These disruptive technologies include artificial intelligence, blockchain, robotics, 3D printing, genomics, and distributed power systems, among many others, and reflect a step change in how we gather information, make products, and interact. Earlier and more rapid adoption of these technologies is likely to alter the course of development in emerging markets after the crisis subsides and the recovery begins, with associated

risks and opportunities. And development finance institutions and the private sector can play a critical role in supporting their scaling up in a responsible and inclusive manner.

CHAPTER 4: Social Bonds Can Help Mitigate the Economic and Social Effects of the COVID-19 Crisis

While still in a nascent stage, social bonds have gained popularity amid the COVID-19 pandemic. As issuers look to raise capital for COVID-19-related expenses and investors seek to achieve positive social outcomes along with financial returns, issuances of social and sustainability bonds have significantly dwarfed those of green bonds. Multilateral development banks have been key drivers of this trend due to increasing interest from corporates and nonprofit organizations. Emerging market governments have also capitalized on investor interest by issuing sovereign social bonds to tackle crisis-related socioeconomic issues. However, the rising prominence of these bonds will bring demands for greater transparency and integrity to ensure that objectives are adequately met.

CHAPTER 5: Impacts of the COVID-19 Crisis on Private Equity Funds in Emerging Markets

COVID-19 has had adverse implications for private equity funds, as economic activity and growth prospects recede. In the short term, returns for these funds will shrink as a result of write-downs in valuations, currency volatility, and challenges in exiting investments. Consequently, fundraising will become more challenging in the medium term, especially for funds targeting small enterprises. For venture capital funding, these trends will be magnified due to the particular needs of start-up investees. However, the crisis will also bring opportunities for these investors. Private equity is well suited to help companies survive crises, and these investors stand to benefit from megatrends that are expected to emerge post-COVID-19.

Sector-Specific Responses

CHAPTER 6: What COVID-19 Means for Digital Infrastructure in Emerging Markets

The current crisis underscores the critical nature of digital connectivity and services in supporting societal resilience and business continuity. Despite this, digital infrastructure providers are forced to contend

with negative shocks caused by income loss among consumers and supply chain disruptions. With larger, integrated companies better positioned to weather supply shocks, this could have negative consequences on competition, access, and innovation. However, the perceived value of connectivity is likely to increase. As such, opportunities abound for public policy to accelerate universal connectivity via regulatory changes and policy reforms. In terms of funding, the industry may fare better than others, given its medium- and long-term potential. Nonetheless, vulnerable firms in the poorest regions may require substantial support from DFIs to preserve competition, improve resilience, and promote digital inclusion.

CHAPTER 7: Lessons for Electric Utilities from COVID-19 Responses in Emerging Markets

Electric utilities face significant revenue losses due to COVID-19, as lockdown measures have substantially reduced demand for electricity in the commercial and industrial sectors, despite higher residential demand. Utility firms were also affected by government policies on payment relief and deferrals, and costs have increased due to health protections for workers, power purchase obligations, and large fixed costs. While the full impact of the pandemic on the sector has yet to materialize, the negative implications are potentially substantial. Liquidity assistance to the sector has been limited to a few countries, with some using the crisis to undertake structural reforms. As the crisis evolves, utilities should work with governments to ensure that support programs avoid redundancies and that welfare improvements are fairly distributed.

CHAPTER 8: When Trade Falls—Effects of COVID-19 and Outlook

The pandemic has significantly affected global trade, which was facing challenges prior the outbreak. Ultimately, while dealing with the virus, most economies also must contend with disrupted supply chains, as well as both demand and supply shocks. In the short term, trade is likely to continue to fall. While recovery is dependent on the course of the pandemic and the timing of a vaccine, the availability of trade finance will also be critical. In the medium term, trade can expedite economic recovery for many countries, with structural and operational changes post-pandemic

that can potentially fuel trade growth. However, such opportunities present challenges that require a large set of stakeholders—both within emerging markets and from more advanced markets—to engage.

CHAPTER 9: How the Tourism Sector in Emerging Markets is Recovering from COVID-19

COVID-19-related travel restrictions have paralyzed the tourism sector and its extensive value chain. Although all tourist destinations strongly feel the impact from the crisis, they differ in their vulnerabilities and capacities to recover. Key factors that determine the vulnerability of a country's tourism sector include its dependence on international tourism, location, access, infrastructure, and its management of COVID-19-related cases. Nonetheless, during the recovery phase countries should leverage their strengths, which include the tourism sector's ability to create domestic or regional demand, its private sector capacity, and government assistance.

Development finance institutions could contribute to the recovery of tourism by providing timely support to well-managed and socially and environmentally responsible firms, working with clients with large footprints to create greater economic impacts on jobs and the supply chain, focusing on areas with most acute needs, providing flexible financing, investing in high-value distressed assets and, when possible, providing additional value through insurance or healthcare services.

Gender-Specific Responses

CHAPTER 10: COVID-19 and the Insurance Industry: Why a Gender-Sensitive Response Matters

The insurance sector faces a positive outlook in emerging markets. However, most insurers fail to see women as a key consumer segment, despite the key roles women play in their households and communities. As insurers adopt COVID-19 relief, recovery, and resilience measures, they should consider applying

a gender lens to their operational processes to avoid perpetuating existing gender gaps. In addition, branding, advertising, communication channels, and product innovations can be developed to focus on the needs of women. Finally, insurers should adopt a gendered approach when looking at their distribution channels to enable greater reach to women.

CHAPTER 11: Childcare in the COVID-19 Era—A Guide for Employers

As a result of COVID-19-related lockdowns imposed around the world, employees find themselves struggling to meet new work and family obligations, with the loss of childcare options and school closures presenting a parallel crisis. It is necessary for employers to remain closely engaged with their employees and provide the relevant support needed. Given the unprecedented circumstances, employers need to be resourceful and innovative in their approaches. These include providing childcare services to essential workers, allowing home-based work with flexible working hours, and offering paid leave to employees dealing with family responsibilities.

CHAPTER 12: COVID-19 and Gender-Based Violence: Workplace Risks and Responses

Employee and community well-being can be impacted by gender-based violence during COVID-19. Such violence has long-term negative consequences for individuals and their families, communities, and businesses. Those who are directly impacted by gender-based violence may be reluctant to report the abuse because of power differentials between victims and perpetrators of abuse during this time, as well as reduced access to support services or mobility restrictions. It is important that employers address these risks by encouraging all employees, and especially those who witness such abuse, to raise any issues and report incidents they see or hear about. ■

RESPONSES ACROSS SECTORS



CHAPTER 1

Leveraging Inclusive Businesses Models to Support the Base of the Pyramid During COVID-19

By Alexis Geaneotes and Kathleen Mignano

The COVID-19 crisis is expected to roll back some of the progress made against global poverty over the last two decades, with the greatest impact on individuals at the base of the economic pyramid. Inclusive businesses that expand access to goods, services, and livelihoods for these individuals are responding to the crisis by reorienting and adapting their inclusive business models and operations. This chapter highlights seven actions that companies are taking to address needs at the base of the pyramid. We present their actions here as examples of what other businesses could do in response to the needs of those at the base of the pyramid.

Inclusive businesses play a key role in providing access to goods, services, and livelihoods for low-income and vulnerable people at the base of the economic pyramid. By integrating the base of the pyramid into their value chains and focusing on them as customers, inclusive businesses deliver sustainable development impact. As these businesses struggle to cope with the COVID-19 crisis, so do those who rely on them.

The role of inclusive businesses will only become more critical as, for the first time in over 20 years, the World Bank has predicted that global poverty rates are going to rise substantially. An additional 49 million people are expected to be pushed into extreme poverty, and it is expected that the wide-ranging effects of the pandemic will be hardest on the poorest and most vulnerable populations.¹

Individuals at the base of the economic pyramid face high health risks that have only grown as a result of the pandemic. Many lack the facilities and soap necessary for keeping their hands clean, and sanitation systems in their communities are often inadequate.² Crowded housing and neighborhoods also make it hard to practice social distancing. Health services are often insufficient too, and food and medical supply chains are more likely to be disrupted.

Livelihoods are being impacted as well. The small farmers, kiosk and mom-and-pop shop operators, delivery drivers, and many more often lack sufficient savings to sustain themselves through an economic shutdown or downturn, and they are unable to cope with rising prices.

Limited access to technology restricts the ability of most micro-entrepreneurs and base-of-the-pyramid customers to pivot to e-commerce. And e-learning is not an option for students that cannot afford a computer, a smart phone, or an Internet connection.

The most vulnerable groups at the base of the pyramid face the highest consequences. For women, impacts range from greater concerns about their health, safety, and income security, to a disproportionate amount of new care responsibilities, as well as higher risk of gender-based violence. For example, in times of crisis, the overrepresentation of women among the economically inactive (neither employed nor in school), and in vulnerable forms of work (such as informal employment or domestic work) heightens their vulnerability to poverty.³

Forcibly displaced populations in refugee camps face significant challenges in terms of access to sanitation,

handwashing facilities, medical supplies, and medical care, as well as disrupted supply chains. These issues are compounded by restrictions on entry and exit from refugee camps.

As a result of COVID-19, inclusive businesses are leveraging their assets, capabilities, long-standing networks, and local knowledge and relationships to address the needs of those at the base of the pyramid.

This chapter outlines seven actions that inclusive businesses in emerging markets are adopting during the COVID-19 crisis to support their low-income and vulnerable suppliers, distributors, and customers. The companies featured here are primarily inclusive business clients of IFC. We present their actions in this chapter to show what other businesses might do or how they might adapt to better respond to the needs of the poor and vulnerable in the context of this pandemic.

ACTIONS

1 Reorient Community-based Staff and Grassroots Communication Methods

To counter the lower levels of product awareness and the resource constraints common in base-of-the-pyramid communities, inclusive businesses often develop “high-touch” methods to communicate value and build capacity. Their field staff and/or agents have extensive networks in the communities where they work, and they have built strong, long-standing relationships with small retailers, local leaders, and other stakeholders.

In response to COVID-19, some inclusive businesses are reorienting their field staff to deliver crucial health information and supplies to base-of-the-pyramid communities. These field personnel, who have been trained to follow all health protocols, include loan officers, agricultural extension workers, and sales staff. In addition to deploying their own staff to distribute information and supplies, some inclusive businesses are leveraging the small, local retailers in their distribution chains.

Inclusive businesses are also using grassroots channels to broadcast information on the dangers and symptoms of COVID-19, handwashing instructions,

BOX 1.1 Gender-Sensitive COVID-19 Prevention Campaigns

The differences between how men and women can be affected by infectious diseases should be taken into consideration when planning COVID-19 health and hygiene information campaigns. Past health emergencies have demonstrated that women’s traditional role as caregivers for sick family members often increases their exposure to infectious diseases. With regard to men, reports from many of the countries affected by COVID-19 indicate that men are more likely to die from the illness. Knowing how and why the exposure to and spread of COVID-19 differs between men and women is important so that each group receives gender-appropriate messages on outbreak control and prevention measures, and so that they understand how important these measures are for their households.^{4,5}

and the requirements for social distancing. These channels include radio, television, signs at retailers and other high-traffic locations, telephone calls and texts, and direct engagement through socially distant, in-person interactions.

For which companies is this most relevant?

Inclusive businesses that have an on-the-ground presence and relationships within the community, including:

- Agribusinesses whose field staff and extension technicians advise and train small farmers
- Microfinance institutions whose officers serve clients in urban and rural areas
- Utility companies whose field staff facilitate connections and address community concerns
- Food and consumer goods companies whose field staff or distributors service small retailers

Inclusive Business Examples

JK Organisation is a group of companies that includes JK Paper, a paper and wood products manufacturer that purchases timber grown by small farmers in some of the poorest districts in India. JK Paper is repurposing its grassroots marketing and using its staff to deliver

health and safety information to farmers and their communities via public address systems, and signs and pamphlets in prominent locations. The business group is also distributing hygiene products, including masks and sanitizers, and providing ambulance support for government hospitals.⁶

BRAC is a global microfinance NGO that has staff in 65 districts across Bangladesh, in areas ranging from urban slums to remote villages. In response to the threat of COVID-19, BRAC Bangladesh is leveraging its field staff of 100,000 to raise awareness about the virus and crucial hygiene measures, teach hand washing, and distribute printed information and hygiene products. The NGO is also playing COVID-19 prevention messages through loudspeakers on the roofs of moto-rickshaws.⁷ Through these efforts, in the first half of April 2020, BRAC reached 18 million program participants with crucial health information, distributed 1.2 million hygiene products, and delivered over 876,00 items of protective wear to community medical staff.⁸

Sarvajal, a water distribution company serving 600,000 people daily in 20 states in India, is using audio, video, posters, and other media in high-traffic areas of villages. Through these media, the company is educating people about COVID-19 risks, symptoms, what to do if symptoms arise, sanitation and hygiene protocols, and which government help lines to contact. In collaboration with its Piramal Foundation, Sarvajal staff are also calling their local operators to see how they are doing during the crisis and deploying them to work with village heads to spread awareness about the virus and teach health and sanitation protocols. In addition, company staff are drawing on their knowledge of local communities to identify the neediest households so that government funds are provided to them.⁹

DCM Shriram Limited, an Indian agribusiness and chemical manufacturing company, has set up COVID-19 ‘control rooms’ in collaboration with local government administrators. These are monitoring the health of migrant workers and their families in 50 villages that surround four of the company’s manufacturing plants and providing them with key information and sanitation kits. Through village-level workers, this effort has reached over 1,700 migrant workers and their families.¹⁰

2 Leverage Existing Tech-based Information Channels

Many inclusive businesses use technology platforms to support and engage with the base of the pyramid in their supply and distribution chains. In the agriculture sector, for example, data management and communications platforms are used to map farms, make online payments to farmers, manage farmer cooperatives, and accurately trace supply chains. Inclusive businesses can now leverage these platforms to distribute COVID-19 related health information.

For which companies is this most relevant?

Companies that use a technology platform to support their engagement with the base of the pyramid, including:

- E-logistics platforms that link together a network of low-income delivery drivers
- Agribusinesses that source from or sell to smallholder farmers
- Food and consumer goods companies with a network of base-of-the-pyramid distributors and/or retailers
- Microfinance institutions and telecommunications providers

Inclusive Business Examples

Kobo360 is a logistics platform in Africa that matches cargo owners with drivers. Since the COVID-19 crisis began, throughout the day, Kobo360 uses mobile channels to text health and safety tips to its drivers, including those who are micro-entrepreneurs.¹¹

Cargill is a global commodity trader and processor that sources cocoa from smallholder farmers. In partnership with FarmForce, a cloud-based mobile platform, Cargill is now deploying its digital farming application to disseminate COVID-19 information to over 1,200 cooperatives and lead farmers in Côte d’Ivoire. This is raising awareness among farmers and communities about COVID-19 and educating people about hand-washing and social distancing.¹²

Olam International, a global agricultural supply chain integrator and commodity trader, is using its online

platform to send information and advice on COVID-19 to smallholder farmers in its supply chain. It is also using the platform to facilitate online payments to farmers.¹³

3 Adopt Alternative Distribution Channels

As many retail outlets have closed due to the requirements for social distancing, inclusive businesses, like other businesses, are now ensuring continued access by offering their products and services online. To enable business-to-consumer deliveries, inclusive retailers are partnering with transportation companies that deliver goods via motorcycle and, in some cases, not charging for delivery. As distribution methods are adjusted, it is important that food and consumer goods companies consider the unique nutritional needs of women and children and adopt channels that will enable the continued delivery of nutritious foods.

Base-of-the-pyramid consumers may not be comfortable using e-commerce, or lack the necessary technology to do so, so many inclusive businesses are now taking orders and managing deliveries by telephone. Some are even financing temporary Internet or mobile phone connections for consumers and providing the required equipment.

In the health sector, for example, some inclusive providers are setting up call centers that enable healthcare personnel and non-COVID-19 patients to connect via telephone, and in some cases, by video. Schools and universities educating lower-income and underserved students are also adjusting to deliver classes digitally. For students who lack access to a ‘smart’ phone, a computer, and/or the Internet, some inclusive educational institutions are now using more accessible channels such as radio, or they are lending students a smart phone or a computer, and partnering with a telecommunications provider to offer free telephone or Internet service.

For which companies is this most relevant?

Companies that traditionally have a physical presence when distributing essential goods and services, but can pivot to use “contactless” approaches for ordering and delivery, including:

- Food and consumer goods companies that target base-of-the-pyramid consumers
- Off-grid water and electricity companies that sell directly or through retail outlets
- Education companies that can pivot to use digital technology or other alternative delivery approaches to teach students
- Healthcare providers that can offer virtual patient consultations

Inclusive Business Examples

Ecofiltro is a water filter manufacturer in Guatemala. When its standard sales channels were suddenly cut off because COVID-19 forced them to close, the company launched an e-commerce site so that household customers could place orders online. The company then began delivering orders via motorcycle. To make this possible, Ecofiltro is partnering with a transportation company that has a fleet of motorcycles whose drivers have been trained to meet government protocols for health and hygiene. In urban areas, Ecofiltro staff take orders online; in rural areas they take orders over the phone.¹⁴

Goodlife is a large pharmacy chain in Kenya with neighborhood stores in high-traffic locations that serve low- to lower-middle-income ‘emerging consumers.’ When the COVID-19 crisis started, Goodlife launched pharmacy-to-home deliveries so that its customers could continue getting their prescriptions and other healthcare products.¹⁵

salauno is an ophthalmology company that provides eyecare to underserved, low-income patients in Mexico. As a result of the COVID-19 crisis, salauno is accelerating efforts to provide telemedicine through video conference platforms such as Zoom and WhatsApp, which enable its medical personnel to provide care to existing patients and consult with potential patients.¹⁶

Luminus Education provides vocational education in Jordan. After the crisis began, the company fast-tracked the setup of its learning management system so that courses could be delivered in a virtual format. By the end of March 2020, 85 percent of students were enrolled in virtual courses and 4,700 virtual classes had been held. Luminus established a call center for student technical

support, and has provided a laptop, a Wi-Fi router, and Internet service to a selection of students who lacked digital access. Luminus shifted its student recruiting efforts to remotely-based approaches, including launching online recruitment campaigns and collaborating remotely with community-based organizations that can reach vulnerable youth, including refugees from Syria and Palestine. Luminus is also providing its most vulnerable students with food parcels.¹⁷

BOX 1.2 The Gender Digital Divide

It is critical that the pivot to digital delivery or payment solutions does not perpetuate or deepen the gaps between men and women that are due to women's lower access to technology. In low- and middle-income countries, women are 20 percent less likely than men to own a smartphone and have access to mobile Internet.¹⁸ As a result of these gaps, women could be left out of COVID-19 support packages unless additional measures are put in place to increase women's access. Solutions designed with a gender lens may include providing women with a mobile phone, subsidizing their mobile Internet connection, and providing them with digital literacy training.

4 Adjust Pricing and Payment Models

Inclusive businesses recognize that the limited incomes and uneven cash flows of their base-of-the-pyramid customers can prevent them from accessing the goods and services they need. As COVID-19 spurs layoffs of low-wage workers and negatively impacts the livelihoods of micro-entrepreneurs, the challenges faced by those at the base of the pyramid are growing.

To encourage continuity of access, some inclusive businesses are adjusting their pricing and payment conditions and/or methods. This includes using financial technology (fintech) to facilitate contactless money transfers and payments by their customers, retailers, and distributors and, in some cases, waiving fees for online or telephone orders and financial transactions. Some companies are also reducing the prices of certain products and deferring monthly payments for financial products such as loans and

insurance, and services such as water and power. Some of these responses have been spurred by a request or requirement from government; in other cases the adjustments are the company's initiative. Again, optimal solutions should consider the access of vulnerable populations—for example, the extent to which digital solutions are available to women, who are often the most numerous microfinance clients.

For which companies is this most relevant?

Companies that offer or finance 'high-ticket' items or ongoing services that are paid for in monthly installments, including:

- Financial service providers that offer microloans, insurance, and mortgages
- Telecommunications providers, financial services companies, and companies working with micro-distributors and retailers that can utilize fintech for 'contactless' transactions and payments
- Providers of ongoing services such as water, power, and telecommunications
- Health and education providers that offer services typically paid by the consumer

Inclusive Business Examples

BRAC (see above) is allowing its savings group members in Bangladesh to continue to receive cash stipends, and to withdraw funds from their group if they have a health emergency or face dire economic hardship.

Duoc UC provides higher education in Chile. As a result of the crisis, Duoc has been lending computers to students and faculty who need them so that they can participate in online learning. Students who cannot study remotely can apply for a pause in their studies at no additional cost. Duoc is also allowing students who face financial hardship to defer tuition payments for two months and is not charging them interest or other fees. For students on a scholarship, Duoc will cover any costs associated with extending their studies.¹⁹

AB Bank Rwanda is a microfinance provider. As a result of the crisis, the bank is waiving transaction fees, including those for withdrawals, account notifications, fund transfers, and other services. The bank is also allowing customers who have problems repaying their

loans to apply for simplified payment procedures through digital channels and/or to defer payment until businesses restart.²⁰

Clínicas del Azúcar is a diabetes care provider in Mexico. The company introduced an emergency payment policy allowing patients to defer payments, and it is providing discounts so that its services can continue to reach patients who need them the most.²¹

5 Adapt the Product or Service

To better meet the needs of poor and underserved customers during the crisis—and especially women—and to help the small farmers and micro-distributors/retailers in their value chains to continue operating, some inclusive businesses are modifying their product and service offerings. For example, they are processing products so that they have a longer shelf life, shifting their service from transporting people to transporting essential goods, and adjusting their technologies or products to utilize contactless approaches to paying for goods and services and making deliveries.

For which companies is this most relevant?

Companies that can quickly adjust their products or service to align with current needs, including:

- Companies that manufacture food and other essential consumer goods
- Companies that have low-income distributors or retailers in their sales chains
- Companies with technologies or distribution models that can support contactless transactions, including payment and delivery
- Financial services companies that can deploy short-term financing packages for households and micro-entrepreneurs
- Agribusinesses that source from, or sell to, a network of small farmers
- Educational institutions that can offer online and offline channels to deliver schooling to students' homes
- Healthcare providers that can deploy technology to offer patient consultations virtually and expand their services to meet additional patient needs (mental health services and COVID-related information)

Inclusive Business Examples

Dodla Dairy is a dairy company in India that sources from cooperatives of small farmers. With the onset of the crisis, demand for milk products declined and, as a result, Dodla's purchases from small dairy farmers declined, too. To help dairy farmers maintain their livelihoods, Dodla began purchasing some farmers' excess milk and converting it into powder, and is doing this for other dairy companies too. This is creating continuity and stability in the dairy supply chain.²²

Clínicas del Azúcar (see above) set up a platform in response to the COVID-19 crisis that enables doctors and nurses to reach out to patients via telephone, and also conduct video consultations.²³ In addition, the company has expanded its 'tele-doc' psychological services to provide counselling for clients who are battling anxiety, loneliness, and depression.²⁴

Luminus Education (see above) surveyed students when the crisis began and found that most of them are using smart phones to access course content, and that connectivity is a barrier for many. As a result, the company has been issuing Internet bundles to students, is developing a mobile phone application, and continues to innovate in response to students' needs. Luminus is also surveying employers to understand how the crisis is impacting their staffing needs so that the company can revise its programs to make sure they align with employers' post-COVID-19 needs.²⁵

Al Amana is a microfinance institution in Morocco. Since COVID-19 began to spread, the company has been re-deploying its mobile banking units to deliver financial aid to low-income, rural communities—including people working in the informal sector and families that are part of Regime d'Assistance Medicale (RAMED), a public fund that pays for healthcare for the poor.²⁶

PickMe is a ride-hailing app in Sri Lanka with over 60 percent of its drivers operating motorized rickshaws. When COVID-19 became a threat, PickMe quickly shifted its services from ride-hailing to delivering essential goods such as groceries and liquid petroleum gas for cooking. Not only does this enable the company's drivers to continue earning a living, PickMe is providing a much-needed service for consumers. To safeguard the health and safety of both drivers and customers, the company has trained drivers on the

requirements for social distancing and other illness-prevention measures. Within just a week of starting its new service, PickMe mobilized more than 2,000 drivers who have since made more than 130,128 deliveries.²⁷ Through PickMe's collaboration with local police stations, its drivers have been authorized to deliver emergency medical supplies during curfew hours. The company has also established an emergency hotline for hospital staff who need transportation to get to and from work.²⁸

SECO, Olam International's cotton business in Côte D'Ivoire, is developing virtual training materials (audio and video) to reach and train its cotton smallholder farmers on anti-erosion measures. These techniques are especially important in this Covid-19 period, which coincides with the start of the cotton season. If properly implemented at the right time, the measures will increase yields at harvest.²⁹

IrisGuard is an iris-recognition solutions company and a leading supplier of iris biometric technology platforms for large-scale humanitarian efforts. To address the needs of forcibly displaced populations in refugee camps, the company has adapted its technology to enable refugees to make retail and banking transactions by using their iris for identification, rather than a fingerprint. IrisGuard has also added off-line functionality that enables its partners to provide mobile banking services at consumers' doorsteps. And by building ATMs into vans, the company has enabled refugees to conduct financial transactions and receive their aid cash from government or humanitarian agencies.^{30,31}

6 Expand Benefits for Micro-Distributors and Retailers

For inclusive businesses, people at the base of the pyramid are not just customers, they are critical partners in the business value chain. For many companies, their networks of base-of-the-pyramid distributors and/or retailers—many of whom are women—deliver last-mile goods and services to underserved or remote areas. To help soften the income shock for their partners and ensure the capacity and resilience of their value chain, some inclusive businesses are reshaping their engagement. For example, they are ensuring that their

base-of-the-pyramid partners get timely payments and that their health-related expenses are covered. Other approaches include ensuring cash flow by providing cash grants, affordable loans, or extending credit.³²

For which companies is this most relevant?

Companies with distribution and sales channels that comprise independent micro-distributors and retailers, including:

- Logistics platforms that work through micro-distributors
- Foods, consumer goods, and health-product companies that distribute through traditional retail outlets

Inclusive Business Examples

Kobo360 (see above) is now guaranteeing that drivers will get paid within five minutes of delivery.³³

Shadowfax, an Indian business-to-business last-mile delivery platform, is connecting companies in the food and consumer goods industries with micro-entrepreneur drivers who deliver to remote or underserved areas. Since the crisis began, Shadowfax has been providing drivers with health insurance worth up to Rs1 million (\$13,000). For any driver who tests positive for COVID-19, the company will provide Rs500 (\$6.50) per day for 10 days of isolation.³⁴

7 Target Donations to the Poorest and Most Vulnerable

Inclusive businesses, like other companies around the world, are responding to the crisis by supporting national and local governments, hospitals, nonprofits, and charities with monetary donations and/or medical supplies and personal protective equipment. As inclusive businesses are familiar with the challenges faced by those at the base of the pyramid, some are specifically targeting poor and vulnerable populations with their donations. These businesses realize that those at the base of the pyramid are more than ever at risk or suffering from lower and uneven cash flows. The donations provided include money, health supplies, the businesses' products, and other goods.

BOX 1.3 What are the Biggest Needs at the Base of the Pyramid?

BRAC International (see above) recently conducted a survey in eight countries, which found that most households are experiencing a decline in income. The numbers were highest in Uganda and the Philippines, where 75 percent of those surveyed reported either no income or a significant drop in income. This was particularly true for farmers, casual workers, and small businesses.

These households indicated that if the pandemic continues, their biggest need will be food. To cope with the crisis, many households indicated they are already reducing how often and how much they eat.³⁵

For which companies is this most relevant?

Companies with customer record-keeping systems, the ability to collect information from the community, and/or an understanding of community needs based on their local presence, which enables them to identify and deploy resources for those most in need, including:

- Companies with networks of field staff who can work with local government leaders or NGOs to deploy resources
- Microfinance companies that can provide emergency loans or relief funds
- Food and water companies that can provide bottled water and nutritious food
- Consumer goods companies that provide health products, and pharmacies that provide basic medical and hygiene supplies

Inclusive Business Examples

BRAC Bangladesh (see above) is providing Tk150 million (\$1.77 million) in emergency food assistance funds for 100,000 low-income families living in urban and peri-urban slums, hard-to-reach rural areas, and

in the communities surrounding the Rohingya refugee camps. Each family is receiving Tk1,500 (\$18) so that they can buy two-weeks' supply of essential food.³⁶

Grooming Centre is a microfinance institution in Nigeria. When the COVID-19 crisis began, the company teamed up with the Sesor Empowerment Foundation to provide internally displaced and economically disadvantaged women with grants of ₦5,000 to ₦10,000 (\$13 to \$26) to offset the decline in earnings from their small shops. These grants are intended to provide enough funds so that recipients can stock up with 10 to 20 days' worth of crucial food.³⁷

DCM Shriram Limited (see above) has repurposed its manufacturing facilities to produce disinfectant, and its distilleries to produce hand sanitizer for local governments, hospitals, and community health centers. The company is also distributing masks, sanitizer, soap, and sanitization kits directly to villages in the areas around its plants in Gujarat, Rajasthan, and Uttar Pradesh.³⁸

Shadowfax (see above) is partnering with the charity GiveIndia to raise funds and deploy them to delivery drivers to meet their essential needs.³⁹ The partnership is also providing pro-bono delivery services of food, medicines, and other essential goods to areas with the greatest needs. These efforts have reached over one million people.⁴⁰

Conclusion

COVID-19's devastating and disproportionate impact on the base of the economic pyramid will require a sustained global effort. The rapid responses from the inclusive businesses highlighted here provide inspiring examples for other companies as they consider how to adapt and reorient their business models to assist the poor and vulnerable. IFC is committed to supporting inclusive businesses throughout this challenging time. It is crucial that we all strive to ensure that decades of critical gains in the fight against poverty will not be lost. ■

CHAPTER 2

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 chapter 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, as they 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.⁴¹ 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.⁴² 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.⁴³

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.⁴⁴

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.⁴⁵

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.

	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.

TABLE 2.1 Pre-COVID and Post-COVID Estimates for Selected Economic Variables for 2020⁴⁶

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.⁴⁷

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.⁴⁸ 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.⁴⁹ 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.⁵⁰ Fortunately, there is some evidence that these hindrances are abating with time as polio campaigns resume.⁵¹

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.⁵² In housing finance, the loss of income will increase bad debts, reduce capital ratios, put pressure on secondary mortgage markets, and create liquidity challenges.⁵³ 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.⁵⁴ 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.⁵⁵

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 2020.⁵⁶

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.⁵⁷

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.⁵⁸

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.⁵⁹ 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.⁶⁰

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.⁶¹

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 2020.⁶² 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.⁶³ 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.⁶⁴

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.⁶⁵

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.⁶⁶ 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.⁶⁷ In Colombia, Venezuelan refugees and migrants have attempted to return home because there are no income opportunities available during the lockdown.⁶⁸

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.⁶⁹ 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.⁷⁰ 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.⁷¹

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.⁷² 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 2.1 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,⁷³ 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.⁷⁴ 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.⁷⁵

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.⁷⁶ 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.⁷⁷ 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 2.2).⁷⁸

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,⁷⁹ highlights that the 10 countries most at risk of COVID-19—with Somalia, Afghanistan, and the DRC the top three⁸⁰—host a combined 17.3 million internally displaced persons.⁸¹ 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.⁸²

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.⁸³ 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

Box 2.2 COVID-19 and Women-owned SMEs in Somalia

COVID-19 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.

Armed Conflict Location & Event Data Project recorded 101 violent incidents, marking a 300 percent increase from the same period last year.⁸⁴ 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 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.⁸⁵ 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.⁸⁶

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.⁸⁷ 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.⁸⁸

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 Paper⁸⁹ and the Independent Evaluation Group’s Guide⁹⁰ 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.⁹¹ 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.⁹²

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,⁹³ 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.⁹⁴

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 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.⁹⁵

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.⁹⁶ 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. ■

CHAPTER 3

The Impact of COVID-19 on Disruptive Technology Adoption in Emerging Markets

By Davide Strusani and Georges Vivien Hounbonon

Disruptive technologies—defined as emerging technologies that result in a step change in the cost of or access to products or services or that dramatically change how we gather information, make products, or interact—increasingly have been altering the development paths of emerging markets and of businesses that operate in emerging markets. Examples of disruptive technologies include artificial intelligence (AI), blockchain, robotics, 3D printing, genomics, and distributed power systems. Disruptive technologies are far broader than digital services.

This chapter presents examples of how disruptive technologies have been employed in emerging markets during the COVID-19 crisis; discusses market trends that may heighten the role of disruptive technologies in emerging markets post crisis; and reviews risks to and opportunities of faster adoption of disruptive technologies in emerging markets. Throughout this chapter, post COVID-19 typically refers to the period beyond 2021, when the global economy starts to rebound, according to growth projections from the International Monetary Fund. However, this time horizon will be affected by potential new waves of the virus and by changes in individual preferences with respect to reopening.

Disruptive Technologies Are Enabling Numerous Responses to COVID-19, Though at Different Scale across Emerging Markets

Prior to the COVID-19 pandemic, individuals, businesses, and governments increasingly relied on disruptive technologies, especially digital platforms, for a variety of activities including financial transactions, commerce, logistics, education, and healthcare. In 2019, mobile Internet traffic per user, a proxy for the use of digital platforms, was growing at a quarterly rate of 12 percent in high-income countries and 10 percent in middle-income countries.⁹⁷

The first few months of 2020, however, have witnessed an increased use of technologies. Compared with use in the first quarter of 2019, the use of mobile Internet grew faster in the first quarter of 2020 as citizens, governments, and businesses experienced dramatic changes in how they interact as a result of

the COVID-19 pandemic and associated lockdowns. Businesses have had to quickly set up new ways to keep workers delivering from home, maintain relationships with suppliers, and continue serving clients, if possible, with minimal physical contact.⁹⁸ Governments have introduced new approaches to continue interacting with citizens for both public services and representation.⁹⁹ Individuals are devising innovative methods for social interactions and consumption with limited physical contact.

The scale of technology use, however, markedly hinges on countries' levels of income (figure 1.1). Countries with lower incomes show lower use of technology as part of their response to COVID-19. For instance, mobile Internet use, a measure of the use of digital technologies, grew faster across most countries during the first quarter of 2020 compared with use in the first quarter of 2019. However, such acceleration largely depends on a country's level of income. According to

Box 3.1 Key Findings

- The COVID-19 pandemic is exposing a large divide between high-income/upper-middle-income countries and poorer countries in digital use and the availability of technology solutions to support the pandemic response.
- Despite the divide, disruptive technologies are enabling numerous responses to the COVID-19 pandemic in emerging markets. Technologies adopted include online healthcare; blockchain-based epidemic monitoring platforms; robots that deliver food and medications and that screen people's temperatures; online education platforms and home-based working solutions; and robotics and 3D-printing technologies to manage social distancing in manufacturing plants. Governments have employed digital platforms, big data analytics, and AI to provide social welfare programs, which are often paid out using mobile money.
- Technology companies in emerging markets are attracting investor interest even at times of capital outflows from emerging markets. For example, 54Gene, a two-year old company specializing in the collection of genetic samples in Nigeria, raised \$15 million in series A equity in mid-April; Bigbasket, an Indian online grocery platform, raised \$60 million in funding while the country was in lockdown.
- The contribution of technology companies to COVID responses varies across sectors and is dependent on the presence of relatively developed digital ecosystems. In addition, their contribution is linked to their ability to quickly pivot toward new services and models, and their ability to expand into adjacent markets and to reach the underserved in a more cost-effective manner than traditional businesses.
- Despite uncertainties surrounding the economic outlook post COVID-19, emerging markets are expected to experience an acceleration in the adoption of disruptive technologies and a proliferation of online business models and platforms. The pace of the acceleration will likely be faster in upper-middle-income countries than in low-income countries. However, such acceleration will mean not only increased adoption of technologies developed in high-income markets but also innovation relevant to local needs.
- Verticals where surges in demand are expected include online healthcare, education, commerce, e-logistics, fintech, and software-as-a-service. Verticals at risk of reduced demand in the short term because of COVID-19-related disruptions may include urban mobility, hospitality, and tourism.
- With venture capital funding in emerging markets outside of India and China representing only a small fraction of global venture capital funds pre-COVID-19, the availability of funding for disruptive technologies in emerging markets, especially in smaller markets, will continue to remain a key issue. Development finance institutions like the IFC can help demonstrate the viability of disruptive technologies in emerging markets post COVID-19, thereby attracting more investors.
- Digital connectivity and digital skills—disruptive technologies in their own right—will become even more critical as foundations to enable the adoption of broader disruptive technologies. In low-income countries, governments can accelerate targeted interventions in this space: these interventions can include infrastructure sharing through independent private sector operators, limited taxation of mobile devices and digital services, and digital connectivity at education institutions.
- In middle-income countries, governments can enable fast scale-up of technology companies by supporting local venture capital funds, promoting public-private partnerships, strategically adjusting the taxation of online services with the goal of enabling affordability, and aligning competition policy between online and offline services. These interventions can be complemented by setting up digital ID systems, promoting advanced digital skills at scale, and placing increased effort on cybersecurity and protecting personal data.
- Private companies could accelerate their digitalization by outsourcing their back-office operations to software-as-a-service companies and by gradually relying on technology companies to manage their relationship with suppliers, customers, and workers.
- In a post-COVID-19 era, development finance institutions can further support the scaling up of technology companies in emerging markets by intervening more upstream through the development of the enabling environment for increased investment in digital infrastructure, technology companies, and digital skills, especially in low-income countries.

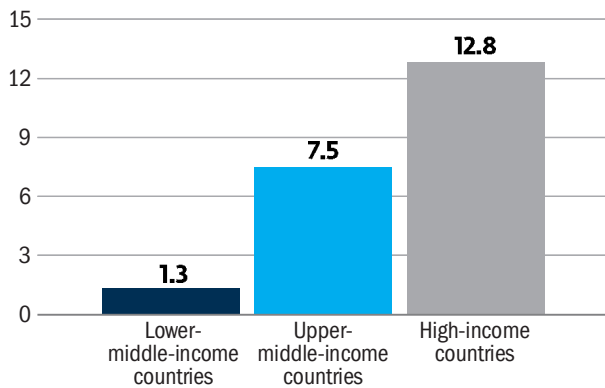


FIGURE 3.1 Excess Quarterly Growth in Internet Use, Q1–2020 (percentage point)

Source: IFC research, using data from GSMA Intelligence (2020). Mobile data traffic per connection of 24 operators from 20 countries: seven lower-middle-income countries, nine upper-middle-income countries, and four high-income countries. Of those countries, two are in Africa, one is in Latin America, 10 are in Asia, and seven are in Europe. No data was available for low-income countries.

Note: The excess is the difference in quarterly growth rates between the first quarter of 2020 and the first quarter of 2019. For instance, in lower-middle-income countries, growth in Internet use was 1.3 percentage points higher in the first quarter of 2020, compared with the first quarter of 2019. Note that differences across income groups may also reflect differences in telecommunications technologies—for instance high-income countries use both fixed and mobile broadband—and differences in the timing of the outbreak.

early evidence from a selected number of countries, the quarterly growth in Internet use was 1.3 percentage points higher in lower-middle-income countries in first quarter 2020, compared with first quarter 2019. This excess growth is 10 times below that experienced by high-income countries and six times below that observed in upper-middle-income countries, reflecting a cross-country gap in digital connectivity.¹⁰⁰

Despite these challenges, disruptive technologies have been used by governments, businesses, and individuals in their responses to the crisis across the world. A review of how disruptive technologies have been employed in emerging markets during the crisis reveals a broad set of responses:

- As part of the response to the health crisis, many hospitals in high-income or upper-middle-income countries were able to quickly provide **online healthcare**, regulators waived restrictions on telemedicine, and users embraced the technology, many for the first time.¹⁰¹

Middle-income countries like China and India have leveraged technologies in response to the crisis. In

China, virtual-care technologies were embraced by physicians as the country’s national health insurance agency agreed to pay for virtual-care consultations and the government contracted large Internet platforms to implement such technologies.¹⁰² Lianfei Technology launched the nation’s first **blockchain** epidemic monitoring platform, which can track the progress of COVID-19 in all provinces in real time and register the relevant epidemic data on the chain so that the data can be traced and cannot be tampered with.¹⁰³ **Robots** were used to disinfect hospitals.¹⁰⁴ India has successfully deployed Aarogya Setu, a **contact-tracing app** that was downloaded by more than 100 million users in less than two months.¹⁰⁵

Low-income countries have also experimented with new technologies, especially with digital financial services, in response to the health crisis. For example, Rwanda temporarily eliminated charges on transfers and payment and tripled the maximum authorized amount of **mobile money** transfers, resulting in significant growth in peer-to-peer transfers, both in value and volume.¹⁰⁶ The government has also deployed five **robots** that can deliver food and medications and can screen the temperatures of 50–150 people per minute, helping to limit healthcare workers’ exposure.¹⁰⁷

At the global scale, pharmaceutical companies are increasingly relying on **genomics** to accelerate the time from viral genetic sequence selection to the first human study, potentially shortening the time to the discovery of an effective vaccine.¹⁰⁸

- As part of their efforts to build resilience, education institutions across emerging markets have shifted to online instruction, using various media such as the Internet, television, radio, and text messages.¹⁰⁹ Businesses have arranged **home-based work**, established social distancing in the office, or both.¹¹⁰ Manufacturing companies have relied on advanced technologies like **robotics** and **3D printing** to manage social distancing.¹¹¹ In addition, technologies have been used to soften the economic shocks. Governments, often in partnership with the private sector, have introduced disruptive technologies such as **digital platforms, big data analytics, and AI** to provide social welfare programs to the poorest.¹¹²

In China, more than 24,000 online courses have been made available to university students. Several companies rushed to deploy robots during the crisis.¹¹³ In India, Sayam, a government-run education platform, hosted 1,900 complete courses for grades nine through 12 and for higher education. The government leveraged the national digital ID system (Aadhaar) to provide targeted social benefits to 200 million women to ease the income shocks induced by COVID-19.¹¹⁴

In Africa, OCP, a large agribusiness company, leveraged **telecommuting** applications like Zoom, Skype, and Microsoft Teams to enable 95 percent of its staff at headquarters to work from home.¹¹⁵ Companies in the outsourcing sector in Morocco rely on telecommuting applications to enable 60 to 80 percent of workers to work from home, with the expectation that such an arrangement could be partly maintained post crisis.¹¹⁶ Offline retailers, including Decathlon in Tunisia, built a website to support online shopping for the first time.¹¹⁷ In Kenya, Kenblest Group, a bread and milling company, relies on an **online supply chain** application developed by the technology company Kobo360 to get wheat from the Mombasa port to its manufacturing facility outside of Nairobi.¹¹⁸ In Nigeria, the Oyo State School-On-Air program reaches 60 to 70 percent of students. The government of Nigeria used digital payment platforms to provide cash transfers to 3.6 million poor households.¹¹⁹ In the absence of up-to-date information about individuals' income, readily available data on the amount and frequency of mobile phone recharging have been referenced in Nigeria and The Gambia to target social welfare programs.¹²⁰

These responses are being supported by technology companies (that is, software-as-a-service [SaaS] firms or online platforms) that are connecting individuals, businesses, and governments. The responses vary across sectors, depend on the presence of relatively developed digital ecosystems, and are linked to those businesses' ability to quickly pivot toward new services and models, to expand into adjacent markets, or to reach the underserved in a more cost-effective manner than traditional businesses. A review of selected examples from emerging markets of how technology businesses

have adapted their business models to rapidly respond to the crisis provides the following indications:

- **In the healthcare sector**, online pharmaceutical and diagnostics platforms and telemedicine companies have experienced a surge in demand as patients' preferences for healthcare services have shifted online.¹²¹ As a sign of the positive prospect in this sector, 54Gene, a recently established biobank in Nigeria, raised \$15 million in series A equity in mid-April as the number of new confirmed COVID-19 infections continued to rise in Africa.¹²²

Ping An Good Doctor, a Chinese healthtech company, had 10 times more newly registered users from early January to mid-February 2020, with average daily consultations reaching nine times more than normal.¹²³ JD Health, the online healthcare subsidiary of Chinese e-commerce firm JD.com, has experienced a tenfold increase in monthly consultations on its platform since the outbreak.¹²⁴ In India, 1mg, the largest integrated online healthcare platform, experienced a 440 percent jump in demand for flu and fever e-consultations following the national lockdown.¹²⁵ Zipline in Rwanda is using drones to deliver essential goods (blood, medical supplies, and potentially vaccines).¹²⁶

- **In the education sector**, companies that provide online tutoring, upskilling, and reskilling have provided free access to their services, or repurposed their platforms to train workers in the most in-demand skills.

Global online education platforms like Coursera and EdX have made thousands of courses available to students for free.¹²⁷ In India, Byju's, a learning app for grades K–12, has experienced a 60 percent increase in the number of new users—it had 2.8 million paid users in 2019.¹²⁸ In China, Zhangmen, an online one-on-one tutoring after-school service provider for K–12 students, experienced nearly three-digit growth in January–February 2020, compared with the same period in 2019.¹²⁹ Etudesk, an online education platform in Africa, is providing free access to students across Côte d'Ivoire and Senegal.¹³⁰ Upskilling and talent-as-a-service companies like Andela and Gebeya in Africa or Revelo in Latin America are repurposing their business models to train workers in the most in-demand skills.¹³¹

- **In the retail sector**, e-commerce platforms that specialize in serving businesses have quickly switched to serving customers directly or through supermarkets, or they have broadened their product lines to include essential goods and services like agricultural, foods, and hygiene.¹³² As a sign of continued investor appetite, Bigbasket, an Indian online grocery platform, raised \$60 million in funding while the country was in lockdown.¹³³

Twiga Foods, a business-to-business (B2B) e-commerce platform that specializes in delivering agricultural products to vendors in urban areas, has partnered with Jumia in Kenya to reach end-customers.¹³⁴ In April and May 2020, Bizongo, a B2B e-commerce platform, supplied 200,000 high-quality, certified PPE kits, helping protect 120,000 medical staff and 250,000 field workers across India. TradeDepot in Nigeria and MaxAB in Egypt are handling the distribution of goods to informal retailers that are seeking to manage operating expenditures and to limit the risk of infection at crowded wholesale offline markets.¹³⁵

- **Long-haul e-logistics platforms** have increased activity to support growth in online shopping as a result of continued social distancing. In addition, some of these platforms, for instance in India, have expanded into adjacent markets like e-tolling and fueling. **Last-mile e-logistics platforms** (that is, companies using technologies to facilitate the delivery of goods in urban areas), have also witnessed an increase in traffic to support the growth of online shopping for foods and groceries.

For example, Full Truck Alliance, a market leader in B2B logistics in China, quickly recovered to half of its normal capacity by the first week of March 2020 with overseas expansion; the company acquired Brazilian TruckPad by the end of March during the COVID-19 outbreak. Kobo360 in Nigeria and Blackbuck in India are rebalancing traffic from low-demand to high-demand goods. And governments are relying on e-logistics companies like CargoX in Brazil and Liftit in Colombia to help with the distribution of essential goods.

PickMe, an online ride-hailing platform in Sri Lanka, pivoted from connecting cab drivers and passengers

to an emergency delivery fleet during the crisis.¹³⁶ In Brazil, Mandae, a technology platform providing intracity delivery for small and medium enterprises (SMEs), experienced an increase in demand and also pivoted to serving larger companies.

- **Fintech** companies like LinkAja in Indonesia are partnering with governments that want to digitalize payments of social welfare programs.¹³⁷

Safaricom, a mobile operator providing the mobile-money solution M-Pesa in Kenya, has waived fees to reduce the physical exchange of currency.¹³⁸

Ant Duo-Chain, a supply chain finance platform launched by China's Ant Financial in early 2019, allows SMEs to get instant credit by selling invoices to banks, which collect the money from the corporate customer, thereby providing greater liquidity to suppliers.¹³⁹ Lulalend, an online lending platform in South Africa, has maintained the provision of working capital to SMEs. TerraPay, a hub for remittance payments, enabled growth of Internet money-transfer operators by allowing them to scale rapidly to several corridors by leveraging third-party platforms.

- **SaaS** providers such as cloud computing companies, information sharing platforms, or applications for business operations (for example, accounting and human resources) have made their databases and services available to governments to aid recovery support. Africa's Talking, a pure digital SaaS platform offering short text messages and application programming interface software to start-ups mainly in Kenya, is proposing a COVID-19 response platform using its technology for COVID-19 information dissemination to less affluent communities.¹⁴⁰

Despite many challenges, disruptive technologies have been used by governments, businesses, and individuals in their responses to the crisis across the world.

Opportunities of Disruptive Technology Adoption in Emerging Markets Post COVID-19

Discussions with technology investors and market experts have indicated the expectation that COVID-19 could accelerate innovation and technology adoption. Established companies that survive could integrate innovations into their business models; new companies

may emerge that alter competition and markets; and consumers could adapt their tastes rapidly. Businesses may leverage digital technologies to adapt and innovate, trying out novel business models, developing new business processes and practices, and redefining models for collaboration and teamwork. These trends

are likely to occur in upper-middle-income economies, and potentially in lower-income countries as they gradually develop foundational elements such as digital connectivity and skills. China is already offering evidence of how COVID-19 will drive digitalization in upper-middle-income countries.¹⁴¹

	Shocks	Technology Adoption	Technologies
Businesses	Increased cost of operations stemming from the implementation of social distancing in informal settings; reduced access to international capital as a result of outflows from EMs; resulting in loss of international competitiveness , with respect to advanced markets competitors	Digitalization of business operations , with increased use of digital financial services, automation, additive manufacturing and remote-control systems in tradable goods and services (including agriculture and aquaculture; mining, oil and gas; ports and logistics; retail and manufacture); but also in nontradable goods and services and the informal sector	Big data analytics and Cloud, AI, Internet of Things, blockchain, robotics, drones, 3D printing, genomics, and distributed power systems, supported by 5G
Individuals	Business failures , resulting in long-term unemployment, in a context of limited government interventions; loss of skills stemming from reduced access to education and reduced learning, in a context of limited access to quality digital connectivity; reduced remittances as a result of widespread unemployment, especially in advanced economies, and in a context of limited social security; resulting in long-term loss of income	Higher demand for goods and services typically enabled by online platforms, from middle-income urban households, as well as smallholder farmers more willing to join online platforms to access markets Higher demand for social welfare programs , delivered in a cost-efficient manner, using digital connectivity, especially by low-income households	Big data analytics and Cloud, AI, distributed power systems, supported by digital connectivity (3G and 4G)
Government	Reduced fiscal revenue as a result of business failures, unemployment, and reduced international trade; increased social expenditure stemming from investment in health and education, as well as social welfare and economic stimulus; resulting in widening public deficits	Investment in e-government solutions as governments gradually shift online to interact with citizens, businesses, and visitors; and to operate (for example, teleconference), thereby reducing travel and events expenditures for both central and local governments	Big data analytics and Cloud, AI, and blockchain
Society	Increased perceived risk of new health crises , given an initially low healthcare capacity; resulting in increased acceptance of tracking and biotechnologies	Digital surveillance for diseases surveillance and monitoring, smart cities, and digital ID by central or local government Surge in contactless transactions to prevent infectious diseases Increased use of precision medicine for diagnostics by government, with higher use of wearables by individuals	Genomics, big data analytics and Cloud, AI, Internet of Things

TABLE 3.1 Summary of COVID-19 Shocks and Potential Technology Adoption in Emerging Markets

*Remittances, a major source of income in emerging markets, are expected to fall by 20 percent in 2020.¹⁴²

Source: IFC analysis based on discussions with market experts and technology investors.

An acceleration in the adoption of disruptive technologies in emerging markets will primarily be driven by responses to economic shocks (table 3.1). On the basis of discussions with market participants, a review of the IFC technology portfolio, and an analysis of evidence from recent technology trends across emerging economies, IFC has undertaken an assessment of how businesses, individuals, governments, and society can adopt innovative technology solutions to respond to short-term (by the end of 2020), medium-term (between 2021 and 2025) and long-term (beyond 2025) shocks induced by the COVID-19 crisis (see table 3.1 for a detailed description). Such time horizons may be affected by a change in consumers' preferences, the duration of the crisis, and potential new waves of the pandemic.

These trends suggest that in the medium term:

- To remain competitive, businesses will further digitalize operations to cut costs and alleviate loss of international competitiveness, with higher use of information and communication technologies to enable remote work, supply chain management, and an online relationship with clients.
- Individuals who have been exposed to online services during the pandemic are expected to increase their relative consumption of online goods and services compared to before the crisis (for example, online group buying of agricultural products and foods, online price comparison platforms, ride-hailing, and bike sharing), all of which are typically more affordable than offline counterparts. This increase in the consumption of online services may contribute to less greenhouse gas emissions as more services are delivered with less movement of goods and people.
- To alleviate public deficits and expand social services, governments will invest in faster digitalization (for example, digital ID, government payments, levies, and workforce management).

A number of underlying societal and economic trends will be accelerated by the pandemic and by the expected economic crisis, and those trends will also help to spearhead the adoption of disruptive technologies, although governments' attitudes toward the pandemic and individuals' ability and willingness

to embrace change will determine the ultimate pace of technology adoption.

Technology investors and market participants have identified a number of trends that are expected to support momentum in investing in disruptive technologies in emerging markets, including the following:

- The rise of a contactless society, that is, a reduction in offline human interactions, for instance in financial transactions and the use of cash,¹⁴³ with clear opportunities for digital currencies. Online delivery platforms increasingly offer contactless options.
- Preferences for shorter business cycles (that is, production and consumption within the same geographical area), could accelerate as a result of a rising concern for local resilience and reshoring¹⁴⁴—this may require the development of new digitally based logistics support systems locally.
- Diversification of international supply chains (that is, sourcing of products and services from a variety of suppliers), both geographically and technology-wise, as businesses increasingly build resilience.¹⁴⁵ This diversification could provide an opportunity for other countries, particularly frontier markets, to compete with China as a manufacturing base. This diversification could be complemented by a surge in last-mile direct-to-consumer distribution lines.

Well-capitalized technology companies with a large network of users and vast amounts of digital data are better positioned to seize the opportunities offered by the crisis.¹⁴⁶ E-commerce platforms with large numbers of users may quickly expand into e-payments, while large online urban mobility platforms are better positioned to expand into online delivery. Such opportunities could be materialized through early acquisitions of start-ups, potentially limiting competition.¹⁴⁷

Businesses may leverage digital technologies to adapt and innovate, trying out novel business models, developing new business processes and practices, and redefining models for collaboration and teamwork.

Risks to Adoption of Disruptive Technologies in Emerging Markets Post COVID-19

One of the biggest risks to the adoption of disruptive technologies stems from the macroeconomic impacts of the crisis, in particular, increased long-term unemployment or underemployment. The income loss from such outcomes could limit any increase in demand for online services, thereby constraining the adoption of disruptive technologies by businesses. In addition, increased inequalities could limit a broader adoption of technologies by individuals, especially women. COVID-19 is expected to exacerbate labor force and income gaps for women,¹⁴⁸ particularly because women are less likely to have access to digital skills and assets¹⁴⁹ and more likely to be disproportionately affected by increases in automation.¹⁵⁰

Significant barriers to digital connectivity remain that could slow the adoption of disruptive technologies in emerging markets, including the availability of affordable quality Internet access and the level of digital skills in the majority of the population of formal and informal workers.¹⁵¹ Nearly three billion people in emerging markets are still offline^{152,153} and the majority of them are women, who are 20 percent less likely than men to use mobile Internet and less likely to use digitalization to mitigate the economic impact of the pandemic.¹⁵⁴ This digital divide could widen further with COVID-19, potentially limiting the diffusion of disruptive technologies.

The risks of a persistent digital divide remain severe. The biggest acceleration of technology and digital solutions during the COVID-19 crisis occurred in countries that had a fairly developed digital ecosystem (for example China, India, Kenya, and Nigeria). Any additional funding for technology companies may be primarily directed to those markets with existing infrastructure and ecosystems, which risks leaving others behind. Another divide that may be widened pertains to urban and rural areas. New technology solutions, especially those focusing on last-mile delivery, e-commerce, and e-payment, support the rise of the digital urban consumer, but these solutions may not reduce the urban/rural divide fast enough. Although digital solutions in healthcare and education have the potential for universal consumption,

connectivity barriers in rural areas may make these services harder to use. Realizing the opportunities offered by COVID-19 will require universal access to the Internet. A technological gap could also emerge if low-income countries cannot accelerate investment in next generation technologies like 5G or AI.

Cybersecurity risks will likely increase because the rising use of digital services increases exposure to cyberattacks,¹⁵⁵ affecting societal trust in disruptive technologies. For example, in South Africa, up to 300,000 mobile devices suffered from various network attacks in one week during the lockdown.¹⁵⁶ In addition, there is a risk that COVID-19 may limit the expansion of technology start-ups by reinforcing **first-mover advantage** positions. Further, privacy concerns remain critical to ensure citizens' data is protected.

COVID-19 also carries a number of broader risks for technology companies in emerging markets, including limited access to venture capital for start-ups, reinforcement of first-mover advantage, and a prolonged pandemic. **Venture capital**, which is essential for providing early stage risk capital to technology companies, may not be available to start-ups as venture capital funds concentrate more on supporting existing portfolio companies and on adjusting their reserve capital accordingly.¹⁵⁷ Venture capital deals typically drop off in times of crisis,¹⁵⁸ which can prevent start-ups with limited cash from continuing to grow in expectation of a recovery. However, start-ups from the poorest markets, like Africa, may be more resilient because prior to the COVID-19 crisis they were operating in a resource-constrained environment with an emphasis on growth balanced by profitability and positive cash flow. Start-ups will need to focus more on cash-cutting measures and on frugal management of working capital.

In the near-to-medium term, technology companies across verticals with strong offline human interactions such as urban mobility (ride hailing and car, scooter, and bike sharing), hospitality, tourism, airlines, and events may struggle to recover from the crisis because of lockdown and social distancing measures—although mobility companies may mitigate losses through rapid shifts to delivery and freight services.

Many of these technology companies are laying off large numbers of workers to align with the expected decline in their revenues, including global technology companies with a presence in emerging markets such as Uber and Airbnb.¹⁵⁹

Recommendations to Support the Adoption of Disruptive Technology in Emerging Markets Post COVID-19

Against a context of the technology divide in emerging markets resulting from lower incomes, funding, digital connectivity, and digital skills, there are opportunities for targeted interventions that enable scale-up of technology companies and that limit the risk of widening the gap between low-income and middle-income countries. Discussions with market participants and IFC portfolio companies have identified potential interventions, including supporting local venture capital funds, promoting public-private partnerships, and aligning taxation and competition policy between online and offline services. These interventions are government-driven, but they could be complemented by private sector strategies such as research and development expenditures and by corporate governance that is more amenable to technology adoption. They can be further enhanced by various other stakeholders, including multilateral development banks and development finance institutions.

Recommendation 1: Governments could support local private venture capital funds, accelerators, and incubators by matching funds from private investors and development finance institutions. For example, governments could repurpose funds or grants previously dedicated to public incubators or accelerators to match private sector angel or seed investor groups. Low-income countries often exhibit unique challenges that may not be addressed by adapting innovations from developed markets. In such contexts, local venture capital funds are better positioned to drive the emergence of technology companies with products and services that are highly valued by users to support rapid and sustainable scale-up and penetrate the “mass market,” especially low-income consumers and informal retailers. Traditional businesses with heavy assets have successfully reached scale in low-income countries, suggesting that asset-

light technology companies can scale too, and probably faster. These interventions will need to be refined according to demand factors such as the availability of digital skills and trust in online services.

Recommendation 2: Public-private partnerships (PPPs), whereby private technology companies manage specific public services, can be accelerated, especially in countries with a fairly high level of digital connectivity. Technology companies can be involved in the management of routine government operations such as the collection of certain taxes and fees and in the delivery of public services in sectors such as education, healthcare, and mobility. Key areas of PPPs include the provision of ancillary public services like upskilling of workers, tracking of drugs, and bike or car sharing in cities. A number of such PPPs are underway in several countries, including cash transfers with LinkAja in Indonesia and urban mobility with Bykea in Pakistan.¹⁶⁰ However, they are yet to be embraced by low-income countries as they expand their digital connectivity.

Recommendation 3: Aligning taxation between online and offline services. In low-income countries, relaxing taxation on digital connectivity can help boost the uptake and use of digital platforms, thereby supporting the diffusion of disruptive technologies such as mobile financial services, online education, and healthcare. Such measures can be considered in the aftermath of the crisis to support a digitally enabled recovery. In middle-income countries, more strategic taxation of online versus offline services, with the goal of enabling affordability, can support wider adoption of digital services, especially by the poor, with faster scale-up of technology companies. Digital services such as online shopping are often subjected to specific taxes above and beyond taxes on the offline equivalent, potentially limiting their affordability. In India for instance, e-commerce platforms are required to withhold 1 percent on the gross amount of sales.¹⁶¹ In the context of a high level of unemployment post COVID-19, maintaining these taxes could limit the uptake of digital services.

Recommendation 4: Competition and innovation policies could become more aligned with the functioning of technology companies because

most were initially designed to regulate traditional companies. Merger control could be softened to provide exit opportunities for technology start-ups. More flexible intellectual property laws, especially copyrights on digital contents harmonized across several countries, could enable technology companies to rapidly innovate.

Recommendation 5: Governments could further complement these interventions by investing in a set of enabling digital pillars. These pillars include setting up a digital ID system and connecting schools and universities to the Internet, while encouraging partnerships with private sector players to enhance technological education and preparedness through online course work and exams (as opposed to building their own), and supporting private higher education institutions delivering specialized information technology programs. Ensuring cybersecurity and personal data protection also will be key to building public trust in technologies. Removing legislative and regulatory barriers in key sectors such as online healthcare and education could further boost adoption, including more disruptive technologies in publicly procured projects (for example, public transport), innovation sandboxes, and fostering a market for local technology start-ups.

Recommendation 6: Beyond government intervention, private companies could partner with technology companies instead of developing in-house technologies. Where legislation permits, private companies can accelerate their digitalization by partnering with technology companies. These

partnerships can take the form of commercial contracts or venture capital investment in technology start-ups developing complementary services. For example, a retailer could partner with an e-commerce platform or invest in an e-logistics platform to develop online sales instead of developing its own platform. Outsourcing of technological solutions already is underway especially with software-as-a-service companies like cloud service providers; however, digitalization can be accelerated at a lower cost, especially in the context of a post-COVID-19 recovery, by gradually relying on technology companies.

Recommendation 7: In the post-COVID-19 era, development finance institutions can further support the scaling up of technology companies in emerging markets by intervening more upstream. For example, IFC is developing upstream projects to further develop the enabling environment for increased investment in digital infrastructure, technology companies, and digital skills, especially in low-income countries. Such initiatives should become more widespread to create lasting conditions for the growth and sustainability of technology companies in emerging markets, thereby supporting the expansion of their digital economy and strengthening their resilience to shocks like the COVID-19 pandemic.

Discussions with market participants and IFC portfolio companies have identified potential interventions, including supporting local venture capital funds, promoting public-private partnerships, and aligning taxation and competition policy between online and offline services. ■

CHAPTER 4

Social Bonds Can Help Mitigate the Economic and Social Effects of the COVID-19 Crisis

By Sophie Peeters, Maud Schmitt, and Ariane Volk

Social bonds have become an increasingly popular fixed-income product since the Social Bond Principles were published in 2017, and their growth and popularity have accelerated in recent months due to the onset of the COVID-19 pandemic and the resulting need for new funding avenues to address the unforeseen economic and social disruptions. Since the outbreak of the crisis, global issuances of social bonds have risen considerably, and an increasing number of market participants have turned to IFC, a prolific and experienced issuer of social bonds, for advice on how to set up Social Bond Programs and Social Bond Frameworks. The hope now is that social bonds can become a significant method for financing projects that mitigate the socioeconomic impact of the current health crisis, and that the growing use of and interest in these bonds can be sustained post crisis.

A recent innovation, social bonds play a key role in providing access to capital for projects that contribute to socioeconomic advancement and empowerment, affordable housing and infrastructure, access to essential services, employment generation, and food security. They are similar in structure to green bonds, a particularly popular form of “use of proceeds” bonds. Green bonds fund energy, climate adaptation, and emissions reduction projects, as well as climate-smart projects such as renewable energy, energy efficiency, sustainable agriculture, and green buildings. The European Investment Bank’s 2007 ‘Climate Awareness Bond’ introduced green bonds into the market. In 2013, IFC issued two benchmark-sized \$1 billion green bonds. The latter brought the necessary liquidity to this nascent market, allowing for green bonds to become an important contributor to financing the Sustainable Development Goals (SDGs). Recognizing that there is often a need to finance both environmental and social goals in tandem, sustainability bonds offer issuers the opportunity to fund a mix of social and green projects with their proceeds.

Green, social, and sustainability bonds, though increasingly popular, still only make up a fraction

of the overall bond market. And compared to green bonds, the social bond market is still in its nascent stage. However, issuances have skyrocketed since the outbreak of COVID-19 in early 2020, as social bonds have become of increasing interest to investors looking to achieve positive social outcomes together with a financial return.

This popularity is mainly due to the launch of COVID-19 bonds, also sometimes called corona bonds or pandemic bonds. The proceeds of COVID-19 bonds should address or mitigate issues wholly or partially emanating from the coronavirus outbreak. While in principle COVID-19 bonds can be structured as green, social, or sustainability bonds or even remain unlabeled, some issuers have taken advantage of their existing social or sustainability bond frameworks and programs to launch COVID-19 related bonds. Others, for example the Nordic Investment Bank, have put together new frameworks.

Social Bonds Before COVID-19

Similar to green bonds, the initial interest in social bonds came from a pocket of investors who were not only pursuing financial returns from their investments

but also looking to contribute to positive social outcomes. The primary supply of social bonds was initially driven by multilateral organizations such as IFC, and later by non-sovereign financial institutions.

The first corporate to bring a social bond to the market was Danone in 2018.¹⁶² The proceeds of this €300 million (\$355 million) social bond are mainly directed

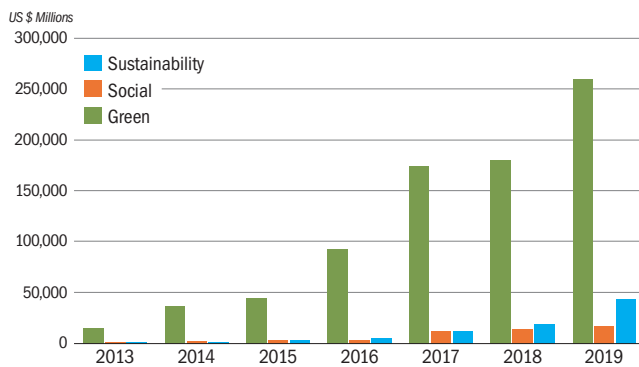


FIGURE 4.1 Historical Bond Issuances (2013–2020)

Source: *Environmental Finance*.

BOX 4.1 The Social Bond Principles (SBP)

The Social Bond Principles define the concept of social bonds and provide recommendations when it comes to impact reporting, transparency, and disclosure, and by doing so promote integrity in the social bond market. They are the product of collaboration between various capital market participants—issuers, underwriters, and investors—and published by the International Capital Market Association (ICMA) in 2017. The 2020 version of the Principles provides a more extensive list of project categories and target populations.¹⁶³

Similar to when the Green Bond Principles were launched in 2013, the social bond market witnessed a significant increase in issuances since the launch of the Social Bond Principles. Despite this trend, green bond issuances were still 16 times the volume of social bond issuances in 2019 (Figure 1). Part of the reason for this may be that measuring the impact of projects available for green bond financing is often comparatively easy, for example by the volume of CO₂ emissions averted. By contrast, projects benefiting from social bonds’ use of proceeds often have more intangible and qualitative outcomes, which may complicate impact reporting.

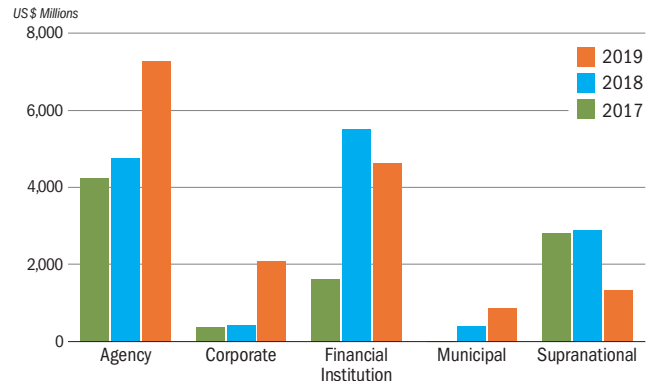


FIGURE 4.2 Social Bond Issuances Per Type of Issuer (2017–2019)

Source: *Environmental Finance*.

BOX 4.2 IFC and Social Bonds

IFC has played a key role in the development of the social bond markets.

In 2013, it was one of the first to issue social bonds under its Banking on Women and Inclusive Business programs, which were merged into a Social Bond Program in 2017. As of the end of FY20, IFC has issued over \$3 billion in social bonds across currencies in public markets and in private placement format. To offer U.S. retail investors access to social bonds, IFC launched its Social Impact Notes Program in 2019. The notes are offered in denominations of \$1,000 and are available through a nationwide network of broker-dealers in the United States.

IFC uses social bonds to raise capital for projects that seek to support social issues and boost shared prosperity. In FY19, the proceeds from IFC’s social bonds supported 31 projects, for a total committed amount of \$823 million, to benefit underserved communities across developing countries. These projects aim to help people access essential services such as healthcare and create opportunities for women entrepreneurs.

In addition to regular issuances in public and private markets, IFC engages in the dialogue on standard setting and best practices around thematic bond products through its role as Chair of the Executive Committee of the Green and Social Bond Principles for the years 2020/2021. IFC also provides technical assistance by advising clients in setting up their own Social Bond Programs that are consistent with leading market standards.

toward food security research and development, as well as toward social integration of food supply chain groups such as small-scale producers.¹⁶⁴

In early 2019, Bank of America issued a \$500 million social bond, the first of its kind by a U.S. bank, which supports affordable housing projects.

Impact of the COVID-19 Crisis

The recent COVID-19 pandemic and the attempts to limit the spread of the virus have caused enormous economic disruptions, including a sharp decrease in consumption and investment, as well as a reduction of the labor supply and consumption globally. Investment-grade companies have increased liquid borrowings to strengthen their balance sheets as they foresee a sustained economic slowdown. Global bond issuances increased by 8 percent in the first quarter of 2020. By June 2020, global corporate bond issuance stood at \$6.4 trillion, which was already 71 percent of the total for 2019.¹⁶⁵

In the early days of the crisis, the cumulative issuance of green, social, and sustainability bonds dropped considerably—by 14 percent compared to Q1 2019, and by 32 percent compared to Q4 2019.¹⁶⁶ The decline in green bond volumes may be partially attributed to the collapse of the Chinese green bond market, which suffered early consequences of the COVID-19 pandemic, as well as to other geopolitical and macroeconomic factors, including the uncertain economic outlook. The Chinese bond market accounted for 60 percent of green bond issuances in emerging markets in 2019.

While the coronavirus outbreak has dampened the issuance of green bonds, it has also spurred the issuance of social and sustainability bonds, as issuers were looking to raise capital for COVID-related socioeconomic expenses. As a result, social bond issuances have skyrocketed since the start of the pandemic, with the first quarter of 2020 recording the highest level of social bond issuances in history. According to Bloomberg, their issuances have increased by 170 percent since the beginning of the year.

By March 2020, issuances of social and sustainability bonds outnumbered those of green bonds. Moody’s predicts that the recent focus on social and sustainable finance will be an enduring consequence of the COVID-19 crisis.¹⁶⁷

Stock exchanges around the world have quickly adapted their policies around bonds as part of their crisis mitigation. For example, the Luxembourg, London, and Nasdaq stock exchanges reduced fees on COVID-19 related social bonds.¹⁶⁸ Bursa Malaysia in late March expanded its list of margin financing collaterals to instruments such as bonds.¹⁶⁹

The Role of MDBs and DFIs in the Issuance of COVID-19 Related Bonds

Despite rising corporate interest, the rapid increase in social bond issuances as a response to the recent pandemic has been mainly led by multilateral development banks (MDBs). Given the nature of their work, they often have access to a social bond-eligible pipeline of projects. Many also have existing frameworks in place, which could be leveraged to identify projects and categories related to COVID-19 relief.

In March, following the worst day in financial markets since the 2008 crisis, IFC issued a \$1 billion social bond in response to the recent pandemic. The proceeds exclusively fund eligible projects selected from IFC’s global investment portfolio that meet the criteria as stipulated by the SBP, including those that address the socioeconomic consequences of the pandemic. While this issuance was executed in an extremely challenging and volatile market environment, it marks the largest bond issued under IFC’s Social Bond Program. The well-received trade resulted in a final order book that exceeded \$3.4 billion. The bond attracted several new

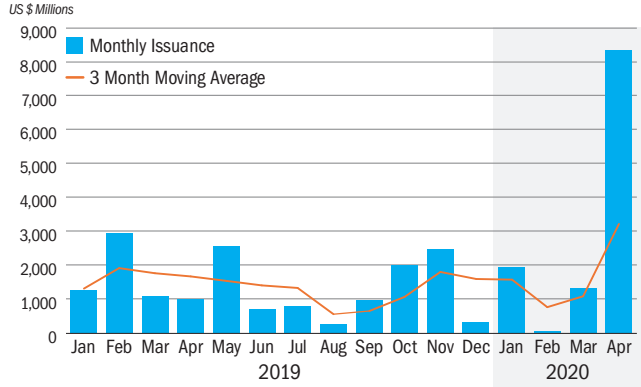


FIGURE 4.3 COVID-19 Could Herald a Social Bond Boom

Source: Bloomberg, IIF.

investors to IFC's Social Bond Program but also drew interest from existing investors investing in this thematic product for a first time. Following the success of this initial social bond in US dollars, IFC launched another Swedish krona 3 billion (\$300 million) five-year social bond to meet demand from Scandinavian investors.

MDBs such as the African Development Bank (AfDB) and the Inter-American Development Bank (IADB) quickly issued multiple "Fight COVID-19" bonds to raise financing for vulnerable health systems in emerging markets. With a \$3 billion social bond issuance, AfDB launched the largest social bond in international capital markets as of March 2020.¹⁷⁰ The trade will support access to health and other essential goods, services, and infrastructure in African countries. Also in March, IADB issued a \$2 billion bond which is explicitly supporting progress toward SDG 3: Good Health And Well-Being, using their sustainable development bond framework.¹⁷¹ By April 2020, more than \$10.6 billion in social bonds were issued by Sovereigns, Supranationals, and Agencies (SSAs), representing 46 percent of all social bonds at that time.¹⁷²

To facilitate the emergency response, in April 2020 IFC published illustrative case studies that highlight how issuers from various industries may raise financing in compliance with the SBP to counteract the effects of the pandemic.¹⁷³ Examples for the use of proceeds include (1) tests, vaccines, and medication research and development; (2) loans to small businesses impacted by the economic slowdown; and (3) the production of health, safety, and hygiene supplies and equipment. Proceeds might also finance projects specifically designed to prevent and/or alleviate unemployment, both in the short run or as part a longer-term economic recovery, according to IFC and in line with the Social Bond Principles published by ICMA.

Corporates and financial institutions have increasingly expressed interest in putting together their own social bond programs exclusively catering to COVID-19 relief, some of which have never issued a social bond. In mid-May 2020, Bank of America launched a \$1 billion, four-year corporate social bond to address the global health crisis. It is the first COVID-19 bond issued by a U.S. commercial bank, and the bank's second social bond issued. The proceeds will be allocated to loans

to the healthcare sector, supporting companies leading testing, diagnosis, treatment, and prevention of the virus.¹⁷⁴ Getinge, a Swedish global medical technology company, developed a COVID-19 financing framework in line with the Social Bond Principles. In April, the company commercialized a SEK 1 billion (\$100 million) COVID-19 social bond. The proceeds will be assigned entirely to financing the production of medical supplies such as ventilators, extra corporeal life support (ECLS) equipment, and intensive care equipment.¹⁷⁵

Other companies such as Pfizer have issued sustainability bonds to support the pandemic response as well as other environmental issues such as energy efficiency, waste reduction, and water conservation.¹⁷⁶ In June 2020, the nonprofit Ford Foundation issued \$1 billion in SBP-compliant social bonds with a 50-year maturity, which is unprecedented among U.S.-based private foundations. The proceeds of this bond will support nonprofit organizations fighting inequality in vulnerable communities in their COVID-19 recovery.

Social Bond Issuance in Emerging Markets

Emerging market economies require particularly high levels of investment to achieve sustainable development, which creates potential for green, social, and sustainability bonds. Pre-crisis, Ecuador had just become the first country to issue a Sovereign Social Bond. This \$400 million bond supports the government's 'Casa para Todos' program, which provides affordable housing for more than 24,000 low- and medium-income families.¹⁷⁷

Since the onset of the COVID-19 outbreak however, many emerging markets have been on the brink of a balance-of-payments crisis that has been exacerbated by capital outflows and the collapse of commodity prices. As a response, central banks around the world have dramatically expanded their money supply to encourage growth, which has reduced interest rates and caused a rally in bond prices. However, credit ratings downgrades and negative outlooks kept foreign investors away from emerging market debt amid a flight to less risky and more liquid asset classes. As a result, the issuance of green, social, and sustainability bonds in emerging markets totaled only \$7.7 billion in the first quarter of 2020, its lowest since 2018.¹⁷⁸

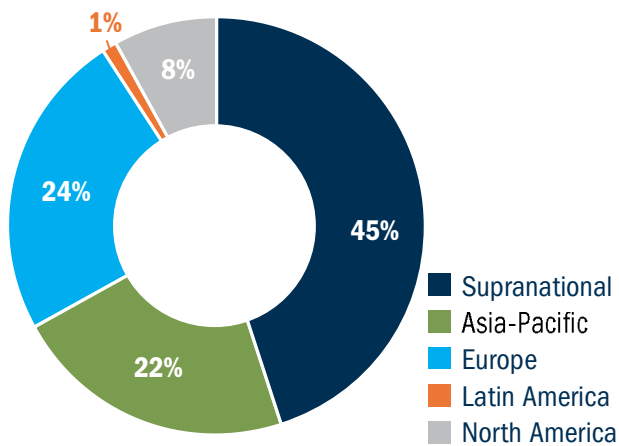


FIGURE 4.4 MDBs Drove Strong Q1 Social and Sustainability Bond Volumes

Source: Dealogic, Moody's Investors Service.

The first COVID-19 bonds were issued in early February on China's domestic bond market by actors such as policy banks, hospital builders, and pharmaceutical companies. By the end of February, Bank of China issued a social bond designed to support small and medium enterprises (SMEs) impacted by the pandemic.¹⁷⁹

Multiple governments issued their first ever social bonds in response to the pandemic. In August, Togo closed the second round of its COVID-19 social bonds, raising \$190 million.¹⁸⁰ The Republic of Guatemala issued the first social bond in Central America and the Caribbean and the first COVID-19 relief in Latin America in April. For the issuance of this bond, the government of Guatemala worked with third parties to ensure that the proceeds meet the ICMA Social Bond Principles.¹⁸¹ This surge of government and supranational issuances has nudged corporates to join the effort.

Kookmin Bank issued a COVID-19 bond in the Republic of Korea in April. This five-year, \$500 million sustainability bond is the first non-sovereign issuer in Asia to raise capital in the public international market with the aim of mitigating the global health crisis and its economic consequences.¹⁸² Some 90 percent of the proceeds will be directed toward SME support while the remainder will be shared between social and green projects.¹⁸³ Shinhan Bank, another South Korean bank, issued a \$50 million privately placed COVID-19 social bond. The proceeds will also be directed toward SMEs and medical support.¹⁸⁴

Challenges

While the COVID-19 crisis has spurred a sudden increase in social bond issuances, bonds remain primarily a long-term financing instrument, though the current health and economic crisis has immediate, emergency funding needs.

Looking ahead, developing a credible COVID-19 social bond market is important to issuers and investors alike. The proceeds from such bonds can be directed toward a highly diverse set of projects and programs, which makes them attractive to a wide range of market actors. However, this also creates confusion about the purpose of COVID-19 bonds, similar to the confusion that has often deterred investors from considering green, social, and sustainability bonds in the past. Thus, transparency and integrity in the social bond market are critical to preventing the risk of "social-washing"—that is, having proceeds used for causes other than those originally intended.

Generally, the proceeds of COVID-related social bonds should be directed solely to social issues directly or indirectly resulting from the pandemic. The issuer should ensure transparency to investors with regard to the use of proceeds and should clearly communicate these. This can be in the form of a description of projects that have already been identified as eligible or, alternatively, the criteria by which projects are to be identified. Ideally, when setting up any Social Bond Program, issuers should put in place a Social Bond Framework that is compliant with and follows the Social Bond Principles. Many issuers may find that their established social bond frameworks are too narrowly defined to accommodate a COVID-19 response. If so, they should reconsider inclusion criteria to fit the purpose of COVID-19 bonds, in harmony with the updated SBP published in July 2020.

Issuers should report on the expected impact of the projects that are eligible to be financed with the proceeds from social bonds. High-quality qualitative, and if possible, quantitative data will help satisfy investors' demands for concrete, comparable, and traceable data.¹⁸⁵

The Executive Committee of the Green, Social and Sustainability Bond Principles, together with ICMA, declared in March 2020 that the "global COVID-19 outbreak is a social issue that threatens the well-being of

the world's population, especially the elderly and those with underlying health problems.”¹⁸⁶ Hence, they have emphasized that the existing guidance for social and sustainability bonds is applicable to efforts addressing the COVID-19 crisis. In June 2020, ICMA published a high-level mapping of the financing objectives for green, social, and sustainability bonds to the SDGs. Another step in the right direction, this mapping facilitates the selection of eligible projects for investors that are embedding the SDGs into their investment strategies.

Conclusion

The social bond market may very well follow the example of the green bond market. IFC executed landmark transactions for the green bond market back in 2013 with the issuance of two green bonds of \$1 billion each. These billion-dollar benchmark bonds demonstrated market depth and substantial investor interest in the product. Subsequently, the market saw an increasing variety of issuers and larger volume transactions. Since then, private sector actors have increasingly been issuing green bonds and are now leading this market. The environment for social bonds before 2020 mirrors these early days of green bond issuances.

Ultimately, a more diverse set of issuers is needed to spur substantial growth in the social bond market. Corporates in industries that are well suited for countering the

adverse effects of COVID-19—pharmaceutical companies are a prime example—have already taken advantage of the opportunity to issue social bonds.

Some market actors are wondering whether the rapid growth of interest in social bonds, as led by issuances by development finance institutions and supranational institutions, may be the social bond wake-up call needed to spur such development. There is convincing evidence for this trajectory. First, the social bond market was already witnessing an increase in interest before the COVID-19 outbreak. Second, the current global health crisis has raised awareness about the extent to which social bonds are useful instruments that can support companies' projects, business models, and investment theses. Third, more first-time issuers have begun to launch social bonds as part of an emergency response. There are challenges ahead, including finding a sufficient number of suitable and bankable projects, as well as the question of how bond proceeds will be measured for impact.

Ultimately, the social issues addressed in the emergency responses to the crisis were and are critical to achieving the Sustainable Development Goals. As the world falls short of financing the SDGs, social bonds might be an opportunity to scale up. If so, the appeal of social bond issuances may well continue after the pandemic has subsided. ■

CHAPTER 5

Impacts of the COVID-19 Crisis on Private Equity Funds in Emerging Markets

By Davide Strusani, Priyanka Verma, and Giorgio Manenti

The role traditionally played by Private Equity Fund (PE Fund) investments in supporting private sector development in Emerging Markets (EMs) is being challenged by the COVID-19 pandemic. This chapter assesses how PE Funds in EMs may evolve as a result of the COVID-19 crisis, focusing in particular on the Growth Equity and Venture Capital (VC) asset classes. Growth Equity funds, which focus on accelerating investees' growth through operational enhancements, account for a significant share of PE Fund investments in several developing regions, while VC funds are a fast-growing vehicle in certain EMs and present specific opportunities related to technology and digitization in the context of the COVID-19 crisis.

This chapter also discusses how selected “megatrends” may impact these two asset classes in the medium term, along with opportunities for the industry and for enhanced DFI support. The intended audience for this chapter is international development practitioners, private equity professionals in emerging markets, and capital market analysts.

The PE Funds sector covers a number of investment strategies. The main types are Buyout,¹⁸⁷ Growth Equity, and VC funds.¹⁸⁸ This chapter will focus on Growth Equity funds and VC funds, which account for an important share of investments in the sector for those DFIs that operate in this space. As Growth Equity funds tend to invest across multiple sectors, a number of megatrends affecting specific industries are described later on. Growth Equity funds typically focus on small and midsize companies seeking capital and knowledge to grow and professionalize.

Private Equity Funds in EMs before COVID-19

Compared to developed markets, the scale of PE in EMs remains limited, and is mostly concentrated in Asia. Only 23 percent of PE global fundraising went to EMs in 2018, even though EMs represent 60 percent of global GDP. About 85 percent of PE capital raised in EMs goes to Emerging Asia, with China and India accounting for 38 percent and 8 percent, respectively.¹⁸⁹ In the 10 years prior to the COVID-19 pandemic, PE in EMs had seen positive trends in

aggregate, mainly driven by Asia. In all EMs, over the period 2008–2018, the total PE activity grew from about \$24 billion to about \$53 billion annually, with an increase in total PE fundraising from about \$58 billion to about \$75 billion annually. Activity in Asia, and in particular in China, drove the growth observed over the past 10 years.¹⁹⁰

Growth PE represents a significant share of PE activity in EMs. In EMs, over the 2014-to-2018 period, the cumulative investments in Growth Equity accounted for about 34 percent of total PE investments, followed by Buyout and Venture Capital investments.¹⁹¹ Buyout investments are largely concentrated in Asia (in China in particular), and to some extent in the Central and Eastern Europe (CEE) and Commonwealth of Independent States (CIS) region, while they remain marginal in Sub-Saharan Africa (SSA) and in the Middle East and Northern Africa (MENA). In most regions, Growth Equity funds are the most prominent type of PE (although other types of Private Capital investments also play an important role).

BOX 5.1 Key Findings

- **PE Funds are being hit by the reduction in activity and growth prospects of their portfolio companies.** The combination of demand shocks reducing income availability and supply shocks disrupting global value chains is impacting entire business lines and sectors, including light manufacturing and urban consumer businesses, which represent a large share of the investments of Growth Equity funds. PE Fund Managers' (FMs) priority is currently to shore up portfolio companies by using the funds' cash reserves where possible and by providing hands-on operational support.
- **In the short term, PE Funds' returns will take a hit as a result of significant write-downs in portfolio companies' valuations, exchange rate volatility, and challenges in exiting investments.** The financial performance of the asset class in EMs has suffered, while overall PE market volumes in EMs are expected to contract.
- **Fundraising in EMs is expected to become more challenging in the next two to three years, especially for funds targeting small and midsize companies.** These funds will struggle to survive, while larger and more established funds will be less impacted but still need DFI support. The composition of the Limited Partner (LP) base in EMs will shift, with international institutional investors being constrained in their asset allocations to EMs. The life cycle of funds will see a lengthening in light of longer fundraising cycles and longer investee holding periods due to challenges in achieving exits.
- **Against a context of scarce VC funding in most EMs, these trends will be magnified for VC funds due to the nature of investees and investors:** Start-up investees need significantly more hand-holding and access to follow-on funding, while less-institutionalized VC investors may step back owing to high perceived risk.
- **The crisis will also bring opportunities for PE FMs.** The PE Funds business model is well suited to help navigate companies out of economic crises, and FMs can become partners in rebuilding sectors and economies through reducing equity funding gaps and leveraging their strategic and operational know-how to support structural changes across businesses.
- **FMs also have an opportunity to pivot and ride a number of megatrends that are expected to emerge post COVID-19.** These include shifts in global supply chains toward localization of strategic sectors and diversification of the supply base for products with complex value chains, an acceleration in digital transformation (increased digital adoption by businesses, uptake of digital platforms and innovative digital business models, rise in the digital urban consumer), and an increased appetite for impact-oriented investments (with a focus on businesses related to COVID-19 response and resilience and with regard to the expected reduction in public sector funding going forward). In the medium term, VC funds will benefit from opportunities to leverage technology and pivot business models.
- **FMs also have an opportunity to better leverage DFIs' support:** In addition to providing funding to support fundraising at a time of negative fluctuations in the economic cycle, DFIs can scale direct investments into investee companies, mobilize third-party capital, and support regulatory change.

The level of dry powder—cash reserves that FMs have available—is relatively high in EMs. In line with a trend observed globally, FMs in EMs entered the COVID-19 crisis counting on up to \$400 billion¹⁹²

of available capital at the end of 2019. An analysis based on the International Finance Corporation (IFC) portfolio suggests that, in relative terms, dry powder is distributed homogeneously across most of the regions.

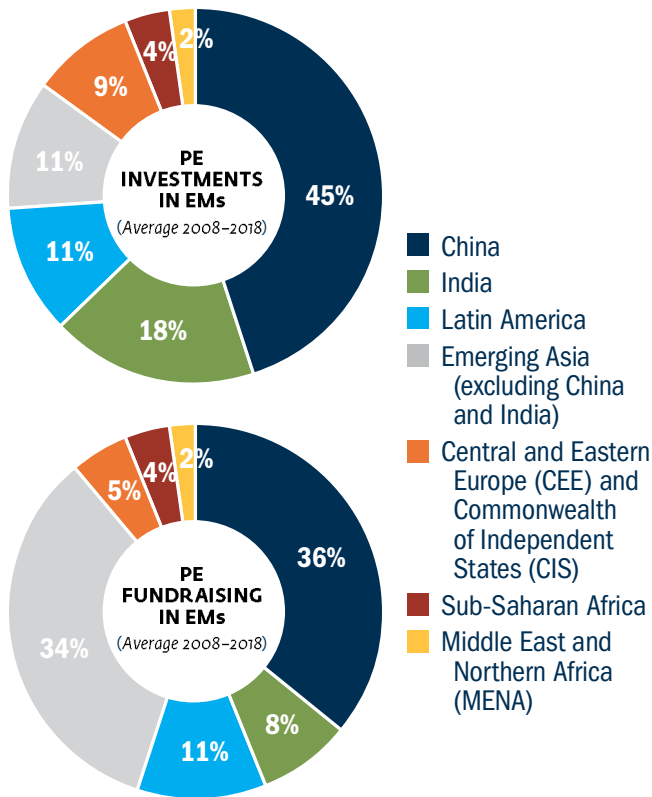


FIGURE 5.1 Investment and Fundraising Trends in EMs, Based on Annual Average Volumes 2008–2018
 Source: Dealogic, Moody's Investors Service.

Expected changes to the Private Equity sector post-COVID-19

PE Funds are being hit by the reduction in activity and future growth prospects of their investee companies. The COVID-19 crisis is affecting the short-term (within one year) and medium-term (within two to three years) growth prospects of funds' portfolio companies, which are generally experiencing negative impacts on revenues, costs, and profitability. Further, these businesses might find it hard to service debt, and heightened risk aversion could lead to climbing borrowing costs, bankruptcies, and defaults.¹⁹³ The combination of demand shocks reducing income availability and supply shocks disrupting global value chains is impacting entire business lines and sectors.¹⁹⁴ Light manufacturing and urban consumer businesses, which represent a large share of the investment of Growth Equity funds, are examples of sectors affected in numerous markets. This situation marks a contrast

to the experience FMs had during the Global Financial Crisis, when availability of credit was an issue but the fundamentals of economic growth that characterized EMs, and the underlying growth prospects of investee companies, did not substantially deteriorate.

FMs' short-term priority is to ensure the survival of portfolio companies by providing them with hands-on operational support and working capital. Discussions with FMs across the IFC portfolio indicate that FMs are currently involved in portfolio management activities to understand the implications of the crisis on investees in terms of liquidity management, cost and revenues, and business continuity along the supply chain. Government support to companies that are experiencing temporary difficulties (for example, through access to loan programs, as seen in developed countries) is often unavailable in emerging markets, hence FMs are stepping in and providing capital to portfolio companies. Interviews conducted by IFC with market participants indicate that, where dry powder is available, this cash can be used by FMs to shore up investees. In cases where FMs are constrained in the support they can provide to investees by capital allocation limits, other types of funding are required, including debt and co-investments with Limited partners (LPs). This approach to shoring up investees is consistent with that taken by the FMs that successfully emerged from the Global Financial Crisis, during which they tended to take a more cautious approach and focused on shoring up existing assets.

In the short term, the financial performance of the asset class in EMs will deteriorate. A common sentiment among LPs and General Partners (GPs) in the PE asset class is that PE Funds' returns will take a hit in terms of reduced PE Funds' Distributions to Paid-in-Capital (DPI) and net Internal Rates of Return (IRRs) as a result of the following factors:

- **write-downs in portfolio companies' valuations** in the first quarter of 2020,^{195,196} reflecting the portfolio companies' vulnerabilities discussed above;
- **exchange rate volatility**,¹⁹⁷ which can undermine the returns generated by investees in local currencies and impact cash flows available to FMs; and
- **challenges in exiting investments**, as exit processes are delayed (see Table 5.1) and many deals planned for 2020 will not materialize.

PE ELEMENT	RISK FACTORS
LP composition	<ul style="list-style-type: none"> • Global investors: Further exposure to EM PE constrained by the need to ensure a balance in the ratio between private and public investments in a context where public equity has decreased rapidly in value. • Local investors: Lack of alternatives reduces the likelihood of leaving the asset class. • While some types of LPs may reconsider their investment strategy, as a mitigating factor, DFIs can help compensate for reduced funding.
Fundraising cycle	<ul style="list-style-type: none"> • Reduction in LP base and longer due diligence time for LPs to consider investment in FMs. • Investors' asset allocation rules posing a limitation for investment in EMs during a crisis in high-risk environments. • Delays and reductions in initial fund target sizes.
Investment and capital deployment	<ul style="list-style-type: none"> • Slower and more prudent deployment of capital in light of heightened market uncertainty, ranging from the duration of the crisis to implications for unemployment, income, and supply chain disruptions. • Some upside for those funds that have dry powder available to consider buying opportunities from the depressed valuations of good quality assets.
Investee holding period	<ul style="list-style-type: none"> • Falling earnings and rising cost of capital lead to declining asset prices, which hurt exit multiples for PE investments. • Lower exit multiples are expected to delay exits and increase holding period. • Impacts more severe on funds that are approaching the end of their life and are looking to exit portfolio investments.
Investee exits	<ul style="list-style-type: none"> • Exits to other PE funds will be difficult in light of the prudent attitude of FMs on the buy side. • Strategic investors will experience delays or reduce buying, partly because a due diligence process including in-person visits cannot be completed. • Initial Public Offerings (IPOs) reduced due to the latest trends observed in public indices and volatility in the market.
Composition of Fund Managers	<ul style="list-style-type: none"> • Some global/international FMs will exit EMs. This type of FM had already been declining over the past few years in regions like Africa, and more generally in the mid-market space. • Top-tier domestic FMs are expected to consolidate their position in the market and to raise successive funds in the medium term, albeit at smaller fund sizes; even those that had graduated from DFI support will require further DFI involvement. • Smaller domestic and regional FMs will face the hardest challenges, especially if they had vulnerabilities prior to the crisis. However, this will also be an opportunity for certain FMs to prove themselves, and those that come out on top are likely to be in a position to grow. • See Chapter 4 Appendix for a regional overview of these risks.

TABLE 5.1 Elements of the Private Equity Business Model Impacted by COVID-19 and Key Risk Factors

Source: IFC analysis based on discussions with Fund Managers and market participants.

Overall PE market volumes in EMs are expected to contract over the next two to three years, both in terms of fundraising and levels of activity. Preliminary evidence shows that EM access to international markets has worsened significantly since March 2020.¹⁹⁸

The combination of these risks and the reduced profitability of the PE EM asset class is already leading to challenges in fundraising, with numerous examples of FMs that are currently fundraising and are considering delays and downward revisions of fund target sizes.¹⁹⁹ With some LPs leaving the market or reducing their commitments,²⁰⁰ PE volumes in EMs are expected to contract significantly and take time to go back to their pre-COVID-19 level of activity.

Beyond impacts on market activity and financial performance, interviews with market participants and experts indicate that more substantial shifts are expected to occur in the medium term to the EM PE market, and to some of the fundamentals of the FM business models (see Table 5.1). Among these shifts:

- The composition of LP base in EMs is expected to shift, with the role of DFIs and domestic institutional investors becoming more prominent. A number of global investors will leave the asset class, while local investors are expected to remain, albeit with higher risk aversion. DFIs' participation is expected to become more important, including in markets that have needed lower DFI support in recent years.
- The entire life cycle of a Fund Manager—from fundraising, to deploying capital, to exiting—will take longer. The delays in fundraising and the lower fund sizes than originally targeted suggest that fundraising cycles will lengthen significantly. Heightened market uncertainty will result in slower and more prudent deployment of capital for investments and in longer holding periods, as exit multiples will suffer.²⁰¹ Exit strategies will become more complex and lengthier.
- The number and composition of FMs will change, with the larger and higher quality FMs likely to be less impacted. The more established FMs are expected to be better positioned to absorb some of the shocks, as they have higher portfolio management capabilities, ability to provide strong operational support and capital to investees, and ability to leverage local networks to assess investments.

Small and medium enterprises (SME)–focused funds and accelerators will experience performance deterioration and harder fundraising. SME-focused funds are funds that invest in the smaller end of the market and in frontier regions where availability of private capital is scarce, including early stage VC funds that operate as accelerators and seed funds. These SME funds, which tend to depend heavily on DFI support and grants, have traditionally been operating in a challenging environment. Discussions with market participants indicate that their performance will take a hit in the short term and DFI/donor support will become more selective as a result of heightened risks. Less-institutionalized investors, such as high-net-worth individuals or family offices, are expected to reduce investments in accelerators.

The negative impacts of COVID-19 are expected to be higher on VC funds in the short term than on Growth Equity funds, but VC funds will benefit from increased appetite for technology-based companies in the medium term. VC investment levels in EMs stood at about \$27 billion²⁰² in 2019, out of which about \$19 billion was in China and India only, and represent a small share of total global VC investments.²⁰³ In this context, some of the risks discussed above for the Growth Equity funds asset class are magnified: Start-up companies need more hand-holding, availability of the follow-on funding upon which they depend for growth will decrease, and LPs and investors are less institutionalized and present higher flight risks. However, the positive outlook for technology companies is seen by market participants as a potential mitigating factor (see Table 5.2).

Opportunities and trends for Private Equity Funds in EMs post-COVID-19

As in any time of crisis, opportunities will emerge for the industry to transform its business model and to support companies and economies in a different way.

Opportunity 1: FMs can leverage their strategic and operational know-how to help companies navigate the crisis and the post-crisis readjustments. Unlike banks or other financial intermediaries, PE Funds contribute to the growth of industries by providing not just capital, but also operational capabilities to firms.

VC FUND ACTIVITY	RISK FACTORS
Supporting start-ups	<ul style="list-style-type: none"> • VC funds invest in companies that are at earlier stages of the business life cycle. These companies have yet to prove their business model or are in the process of scaling. • These businesses are more cash intensive, often have little or no revenue, and have a higher risk of failure compared to PE growth fund investees, even in ordinary times. In the current environment, these investees will require more hand-holding and operational value add. • A significant share of investees for most VC FMs in EMs will face cash issues. Seed and early stage VC funds will be the most immediately impacted, while the risk of writing off investments is higher.
Follow-on funding for start-ups	<ul style="list-style-type: none"> • VC funds require follow-on funding from other investors to take companies to the next stage of development. In the current environment, with investors facing travel restrictions that limit the due diligence process, access to follow-on funds is challenging even for good quality companies. • VC FMs are likely to shift from prioritizing new investments to focusing on existing investments; many are providing the additional follow-on funding themselves. • FMs will support portfolio companies currently raising a funding round in several possible ways: by following an external investor who may lower the valuation by a certain amount compared to a pre-COVID-19 scenario; by investing with a consortium of existing investors that take the whole round internally but at a discount; or through providing a bridge loan without setting a valuation, but rather taking a discount to the next external round.
LPs and fundraising	<ul style="list-style-type: none"> • VC funds are usually backed by less-institutionalized LPs that are not as supportive during a crisis. • In most EMs, VC fundraising primarily comes from high-net-worth individuals or family offices, as most institutional investors view VC as a riskier asset class. Discussions with FMs suggest that managing LPs during this crisis is a critical task that FMs are undertaking. • Over the medium term, there is a risk that high-net-worth individuals and family offices will reduce their exposure to this asset class in EMs if it does not deliver the expected returns. Such LPs are also more likely to default on their commitments.
Leveraging technology returns	<ul style="list-style-type: none"> • VC investees often provide digital services, platforms, or deep tech solutions, and have the agility to pivot business models to react to the crisis. Some of these businesses are inherently more innovative and tend to see an uptick during a crisis. • VC has the potential to generate a better risk-reward balance for investors and could benefit from increased interest from LPs as they look to diversify their portfolios and invest more in sectors with more exposure to technology and digitization, given trends that will emerge post-COVID-19. (See Section on “Opportunities and trends for Private Equity Funds in EMs”).

TABLE 5.2 VC Fund Activities Impacted by COVID-19 and Key Risk Factors

Source: IFC analysis based on discussions with VC Fund Managers and market participants.

FMs transfer knowledge and best practices that make businesses more innovative and increase dynamism in the wider market. Evidence indicates that industries in which PE Funds have been active have grown more rapidly than other sectors across total production, value added, total wages, or employment.²⁰⁴ Given the rising uncertainty and impending slowdown in

growth in the real sectors, FMs have an opportunity to leverage this know-how to help businesses navigate the post-COVID-19 world. For example, traditional firms are harnessing the power of technology and digitization to deliver better products and improve their overall business models; FMs can identify and nurture such firms, assisting them in adopting digitization to become

more competitive and resilient. FMs can also help companies rethink their growth strategies amid the shifts that are likely in global supply chains.

Opportunity 2: FMs are well positioned to leverage megatrends in the real sector that COVID-19 has accelerated. In a context where PE funds' success ultimately depends on investees' performance, FM's

ability to understand and harness changes in business models, consumer behavior, and government policy post-COVID-19 will be a key success factor. A number of megatrends are emerging that have a cross-cutting impact on many sectors, and the opportunities associated with these sectors could result in strategic changes and growth potential for FMs.

MEGATREND	RISK FACTORS
Shifts in global supply chains toward localization and diversification	<ul style="list-style-type: none"> • Countries could push companies in sectors viewed as strategic such as healthcare, personal protective equipment, food packaging, and so on to bring back production from overseas. For products with complex value chains (for example, products made over several countries), companies will diversify their supplier base so that they have the flexibility and options to source from a broader range of countries. • This trend could naturally benefit countries such as Turkey, Mexico, Vietnam, Bangladesh, Morocco, and others that have built unique capabilities over the years in certain sub-sectors. Even before COVID-19, Chinese manufacturing had begun shifting to Africa to locally manufacture products in the construction value chain. These shifts will likely intensify.
Acceleration in digital transformation	<ul style="list-style-type: none"> • Increased digital adoption by businesses: In the medium to long term, there will be greater levels of tech absorption as companies seek to digitize certain parts of their operations. Technology will become more important not just for efficiency and competitiveness, but for business continuity and resilience.²⁰⁵ • Rise in digital platforms and innovative digital business models: These models can strengthen supply chains by reducing the role of intermediaries, improve price transparency, and reduce market-wide costs. The demand for models that bring down prices and respond to new challenges is likely to increase as the economy moves toward a recession post-COVID-19. • Rise of the digital urban consumer: The COVID-19 crisis has changed consumer behavior, increasing online food purchases, use of telehealth, and so on. These behaviors are likely to continue in the medium-to-long term.
Increased appetite for impact-oriented investments	<ul style="list-style-type: none"> • Focus on businesses that can help respond to COVID-19: Increased interest in sectors such as health and logistics will increase appetite for impact-oriented investments in these areas. Some of this activity has already emerged—for example, BlackRock has launched an impact fund for companies focusing on combating the COVID-19 pandemic. • Increased focus on economic and environmental resilience: Pandemics and climate-change risk share similarities in that they are physical shocks that require collective action. Other key positives for investments in this space include climate action targets, job creation, and the need for economic and environmental resilience. • Increased level of public government debt (long term): As EMS' government debt continues to grow, the funding gap for investments in critical Sustainable Development Goals (SDG) sectors (education, gender, water and sanitation, and so on) will require greater private sector funding.²⁰⁶

TABLE 5.3 Post-COVID-19 Real Sector Megatrends and Key Features

Source: IFC analysis based on discussions with VC Fund Managers and market participants.

Growth-focused funds have opportunities to harness shifts in global supply chains toward localization and diversification. Businesses and governments will likely have a greater desire to shift their supply chains to be less dependent on a limited number of markets in the wake of the COVID-19 crisis. A vast proportion of Growth Fund investees operate in the manufacturing sector, and as global value chains shift and new hubs emerge, FMs have an opportunity to leverage their experience and react appropriately to these changes. The active and hands-on approach of FMs presents opportunities to assist businesses in entering new markets or shifting their own supplier base to deliver growth.

Funds that operate in the growth stage have an opportunity to shift toward digital technology, and the late VC growth stage has potential to grow. An acceleration in digital transformation will likely materialize through increased digital adoption by businesses, a rise in digital platforms and innovative digital business models, and a rise in the digital urban consumer. Certain verticals will emerge as winners from this increased digitization in the medium term, such as healthcare, logistics for online purchases (of food, groceries), and payment/lending platforms. The crisis is likely to spark innovative, entrepreneurial ideas for building sustainable infrastructure and scalable essential services, and investors, particularly in the venture space, will be needed to fund these ventures.

Increased appetite for impact-oriented investments will provide opportunities for Impact funds. FMs will be increasingly asked to support LPs' appetite for more impactful investments—for example, investments in businesses that can help respond to COVID-19, such as healthcare; in businesses that can support economic and environmental resilience; and, more broadly, to provide private sector funding to the SDGs in the face of an increased level of public government debt. Impact funds were already on the rise pre-COVID-19.²⁰⁷ A rise in appetite for impact from governments, consumers, and LPs will intensify this trend,²⁰⁸ with an opportunity to also shift more traditional GPs to think about how they can best deliver impact.

Opportunity 3: FMs could leverage DFIs' support beyond their LP role—for example, for co-

investments, due diligence, and to improve regulatory environments. Traditionally, the role of DFIs has been to invest in nascent markets, provide counter-cyclical funding to PE Funds, catalyze more private sector funding, promote impact objectives, and provide technical assistance where required. Most DFIs have strong relationships with the top-tier FMs in each region and these partnerships are likely to continue; some of these FMs had graduated from DFI support and will likely need it again. In addition, much of the mid-market segment, the smaller managers, and the early stage venture funds and accelerators will continue to look to DFIs to sustain them. While this support will continue, there is an opportunity for FMs to leverage a number of other advantages DFIs can offer:

- Accelerating and scaling direct investments in investee companies, which are critical to support growth of the best investees in an environment of equity scarcity for EMs; providing access to working capital loans to investees; and playing a greater role in identifying opportunistic deals.
- Leveraging DFI presence on the ground to facilitate the due diligence process in a context where international FMs may not be able to fully operate locally, and to support further mobilization of other investors.
- Mobilizing third-party capital by providing and encouraging local capital to engage with PE and VC, and by sharing due diligence with interested LPs who may not have the ability to conduct detailed due diligence.
- Connecting FMs and governments to fill funding and capacity gaps to catalyze the strategic transformation of critical industries.
- Increasing industry effort to work with governments to develop policies and legal frameworks that enforce contracts (such as property rights), protect investors, and are compliant with international business standards and practices.

Growth-focused funds have opportunities to harness shifts in global supply chains toward localization and diversification. ■

CHAPTER 5 APPENDIX

Summary of PE Trends Across Regions

The table below summarizes the relative vulnerabilities and strengths of the PE asset class across EM regions (excluding China). The assessment is based on a review of trends currently observed in these regions and discussions with local market participants and analysts.

REGION	VULNERABILITIES	STRENGTHS
Sub-Saharan Africa	<ul style="list-style-type: none"> • The SSA market entered this crisis more vulnerable than most other EMs, with more limited availability of private capital. • Most FMs are closing funds at a smaller size than initially foreseen, and this is expected to continue. • FMs, including the larger ones, who had graduated from DFI support, have come back to request DFI participation in the upcoming fundraising cycles. • Small and mid-market funds appear especially vulnerable in the next fundraising cycle and are at risk of disappearing. • Delayed fundraising cycles and a reduction in PE activity overall are expected over the coming years, shrinking the activity of the PE sector. 	<ul style="list-style-type: none"> • The most established FMs are completing or have recently completed fundraising, albeit at a smaller size than predecessor funds, and are now able to deploy the capital. • These FMs are currently shoring up their existing portfolio investees. • Opportunities exist for established FMs with capital to deploy to find investments at more attractive entry valuations than would have existed six months ago. • Africa may benefit from increased opportunities in the manufacturing sector as a result of shifts in value chain from other regions.
Latin America	<ul style="list-style-type: none"> • Foreign exchange (FX) market volatility and currency depreciation, especially in Mexico and Brazil, could constrain PE funds' ability to generate positive returns for LPs even when the underlying investees are performing well from an operational perspective. • FMs that operate in the smaller market segment have emerged in recent years: They are at higher risk due to foregone revenues and low financial performance and are expected to struggle to survive. • The potential scale of the COVID-19 outbreak in Brazil and the policy response to the crisis will add to uncertainties. 	<ul style="list-style-type: none"> • Some FMs have completed fundraising, have some dry powder, are well placed to deploy capital to shore up portfolio companies, and could deploy into good quality assets as valuations fall. • The cash availability of larger funds appears relatively robust compared to other EM regions. • The best performing funds are accelerating tech-driven solutions. • There is some internal capacity from FMs to absorb shocks through the domestic banking sectors or local development banks (these are more sophisticated in Brazil and Mexico and Colombia than in other regions).

REGION	VULNERABILITIES	STRENGTHS
Southeast Asia	<ul style="list-style-type: none"> • Most FMs currently fundraising are experiencing delays, and most of the capital is expected to go to established FMs, which will negatively impact smaller or SME-focused funds. • Growth PE risks being negatively impacted by weakening consumer demand, as consumercentric businesses need to pivot rapidly to benefit from the rise in online business and e-commerce. • In frontier markets, some initial attempts to introduce the asset class to Cambodia, Laos, and Myanmar might result in negative outcomes, due to these markets' high reliance on tourism and to the lack of banking infrastructure to provide companies with lifelines. 	<ul style="list-style-type: none"> • VC funds have the opportunity to invest in innovative businesses, provided they have the financing readily available. • Overall, the larger countries in this region appear relatively shielded from market disruption in the medium term, riding the rising trends in VC/technology or consumer-driven businesses, and opportunities at the intersection of PE/VC. • Because the COVID-19 outbreak started in this region, SEA's PE/VC industry might emerge from the crisis sooner and bounce back faster than other regions.
Central and Eastern Europe (Turkey/ Poland)	<ul style="list-style-type: none"> • Established/top-tier FMs have had to reduce fundraising targets sharply in Turkey. • Companies in this region tend to be highly exposed through the global supply chains (Turkey and Poland serve as manufacturing hubs for the European market). • A new fundraising cycle in Poland will be coming up in the next two years and will be impacted by lack of funding. • Nascent markets in South Eastern Europe will struggle to emerge. 	<ul style="list-style-type: none"> • Large and well-governed companies have buffers and are expected to withstand the shock, and larger FMs typically have had relatively diversified portfolios. • Countries in this region will likely benefit from timely DFI and regional institutional support, also through specific financial instruments available in the region. • Turkey stands to benefit from shifts in global supply chains, as it can serve as a key manufacturing hub.
India	<ul style="list-style-type: none"> • Some FMs are facing delays in both fundraising and deploying capital, with the currently fundraising FMs having to postpone closing the funds. • Risks are accumulating for the many small and midsize FMs that had less dry powder entering the crisis, many of which still rely on DFI funding and are at risk of leaving the market. • As most LPs are in a wait-and-see mode pending the magnitude and duration of the economic crisis, the role of DFIs may increase compared to before the COVID-19 crisis. 	<ul style="list-style-type: none"> • At the larger end of the market, established FMs with fundraising well under way will likely survive and focus on preserving their portfolios. • At the outset of the crisis, the level of dry powder was relatively high, and larger funds are well placed to engage in good buying opportunities as valuations drop for relatively high-quality assets. • The larger end of the market carries out PE deals in Buyout or in VC, and activity at the intersection of PE/VC is rising to take advantage of tech-driven opportunities.

Source: IFC analysis based on discussions with Fund Managers, market experts, and sector economists.

SECTOR-SPECIFIC RESPONSES



CHAPTER 6

What COVID-19 Means for Digital Infrastructure in Emerging Markets

By Davide Strusani and Georges Vivien Hounbonon

The COVID-19 pandemic shows that digital connectivity is critical to societal resilience and business continuity in times of crisis. For digital infrastructure providers in emerging markets, higher demand for connectivity may be counterbalanced by a series of negative shocks. These could affect broadband operators and smaller companies, leading to less competition, limited availability of open-access broadband infrastructure, and reduced technological innovation. However, the perceived value of digital connectivity is likely to rise, creating opportunities to implement policy reforms to accelerate the rollout of 4G and 5G. Digital infrastructure companies, however, may accelerate their migration toward diversified business models. Against a background of funding withdrawal from emerging markets, financing for smaller or independent companies in the poorest economies may require substantial support from development finance institutions to preserve competition, improve resilience, and promote digital inclusion for the poorest.

This note discusses the potential implications of the COVID-19 crisis for private sector investors in the digital infrastructure sector, with a focus on emerging markets. Digital infrastructure—the physical infrastructure of connectivity—consists of undersea, underground, and above-ground cables; tower sites, data centers, and satellites; the invisible spectrum used for wireless communication; and the variety of equipment that interconnects the world through the Internet.

Key findings

- The COVID-19 crisis underscores the critical nature of digital connectivity and digital services in supporting societal resilience and business continuity—these are founded on a robust and well-functioning digital infrastructure.
- For digital infrastructure providers in emerging markets, rising demand for connectivity may be partly offset by negative demand and supply shocks caused by income loss among individuals and businesses, as well as disruptions to digital infrastructure supply chains.
- The broadband sector is likely to be more exposed than the data hosting sector (such as data centers or Cloud services) due to differences in levels of maturity and more complex supply chains. Integrated companies, that is, those that control two or more segments of the digital infrastructure value chain, are likely to be better positioned to weather supply shocks than specialized independent companies.
- Specialized companies and smaller but fast-growing broadband network operators may face survival challenges, leading to more concentrated and therefore less competitive markets, limited availability of open-access broadband infrastructure, or less technological innovation. This creates concerns that rural and gender connectivity gaps may widen further in emerging markets—and may slow expansion of 4G and 5G networks.
- On the other hand, the perceived value of connectivity is likely to increase—consumers may consider it an even greater necessity (or even a right). As a result, public policy could accelerate universal digital connectivity and services, and governments

could implement regulatory changes to align connectivity with electricity or water utilities. This could present opportunities to implement policy reforms to accelerate the rollout of 4G and 5G.

- Digital infrastructure companies can accelerate their migration to diversified business models by monetizing digital data or venturing into new areas such as digital payments, digital content, and Cloud services.
- Against a background of funding withdrawal from emerging markets, the digital infrastructure industry may fare better than others in attracting funding, given expectations of increased demand in the medium- to long-term. However, financing for smaller or independent companies in the poorest economies, or innovative products and technologies, may require substantial support from development finance institutions (DFIs). Such support would be critical to preserve competition, improve resilience, and promote digital inclusion for the poorest.

The COVID-19 Crisis is Increasing the Importance of Digital Connectivity

Digital connectivity has become critical to societal resilience and business continuity. The crisis and the social distancing measures taken in reaction to it—stay-at-home orders in particular—have made it clear that quality Internet and telephony access are necessary to maintaining social interactions and enabling the continuity of government and the private sector. Individuals have been able to work, attend classes, get medical advice from home, order food and goods, and connect with family and friends via the Internet. Governments have relied on digital connectivity to deliver critical public services such as healthcare and social transfers, as well as important information such as health alerts. Digital connectivity is supporting the enforcement of mitigation measures via contact tracing, and is critical to research and the development of cures or vaccines via information pooling on Internet platforms.²⁰⁹

As a result, many markets are seeing increased use of digital infrastructure compared to pre-crisis levels.²¹⁰ The magnitude of this increase varies significantly from one country to another, and most existing evidence so

far pertains to high- and middle-income countries.²¹¹ For instance, Vodafone reports increased European usage—15 percent for mobile Internet and 44 percent for fixed broadband. In Ghana, MTN reports an increase in traffic of 15 percent to 20 percent.²¹² This increased usage mainly reflects greater use of videoconferencing, uploading of data into the Cloud, and video-gaming. In the United States, T-Mobile reported a 77 percent increase in multimedia messages (MMS) and a 45 percent increase in video game traffic. Google Meet’s day-over-day growth surpassed 60 percent. The maximum number of daily meeting participants on Zoom, the videoconferencing app, increased from 10 million at the end of December 2019 to 200 million by the end of March 2020. This often translates into lower-quality Internet access. Ookla, which measures Internet performance, reported a significant but temporary decline in download speeds and an increase in network latency in China, especially in Hubei, during the lockdown.²¹³ In Europe, Netflix adjusted video quality from high to standard definition to cope with network traffic load.²¹⁴

There is still limited evidence about the impact of COVID-19 on digital infrastructure in emerging markets (Table 6.3). Levels of digital infrastructure in emerging markets vary greatly, with large gaps persisting especially in low-income countries (LICs), which are characterized by low levels of Internet penetration, low digital usage, large gaps in coverage between urban and rural areas, and high affordability barriers, especially for mobile Internet.

Most COVID-19 analysis to date focuses on government interventions or specific digital infrastructure subsectors. For instance, GSMA Intelligence analyzes the usage and resilience of mobile networks as well as implications for mobile operators and regulators.²¹⁵ TowerXchange provides experts views of the implications for tower companies,²¹⁶ while Telegeography highlights the impact on broadband network operators, including submarine cable operators.²¹⁷ GlobalData analyzes the impact on digital infrastructure subsectors, especially Cloud services providers.²¹⁸ However, these industry analyses have not yet covered emerging markets, differences between short- and medium-run effects, or the business models of companies. While the health and economic

consequences in emerging markets are still unfolding at the moment,²¹⁹ anticipating the impact on the digital infrastructure subsector will enable private sector participants—especially digital infrastructure operators, regulators, and commercial investors—and DFIs such as IFC to take immediate action and plan interventions for the post-COVID-19 era. Economic analysis can offer a framework for anticipating such impacts.

A Review of Demand and Supply Shocks Induced by COVID-19 on Digital Infrastructure

For digital infrastructure companies, the COVID-19 crisis is primarily a positive demand shock (Table 6.1). Changes in consumer behavior as a result of social distancing measures and increased demand for healthcare services are typically short-term demand shocks, featuring higher demand for data-intensive services like videoconferencing, video calls, live streaming, and file uploading. These shocks are expected to be temporary—occurring at the peak of the outbreak, as suggested by observed usage patterns in China, Italy, and Spain. However, there is a possibility that these shocks will remain in the longer term. For example, the outbreak could lead to a permanent shift in consumer behavior—individuals may upgrade their broadband speeds, subscribe to online news and entertainment plans, and participate in more online

shopping and schooling/tutoring. And businesses may gradually virtualize critical operations to enable home-based working and strengthen business continuity plans in anticipation of similar outbreaks in the future.²²⁰ While these are positive demand shocks, digital infrastructure companies may also experience negative demand shocks in the short-to-medium term as a result of adverse macroeconomic outcomes such as higher unemployment, lower disposable incomes, and lower business demand, especially from small and medium enterprises (SMEs).²²¹

The COVID-19 crisis is also likely to generate a number of supply shocks for digital infrastructure companies. Most of these shocks are expected to occur in the short term as a result of supply chain disruptions and organizational changes (Table 6.1). Social distancing measures in major manufacturing countries like China have led to the closure of factories and delays in shipments of critical IT equipment, resulting in higher costs of inputs and delays in investment projects.²²² For instance, while submarine cables are critical for delivering high-speed Internet access, telecommunications research firm Telegeography reports at least one supplier closing two factories to comply with quarantine in March.²²³ Submarine cable maintenance companies are particularly at risk as they cruise across oceans in an environment where social distancing is

	Demand for digital connectivity and services	Supply of digital connectivity and services
Short-term (during lockdown)	Change in consumer usage patterns, including new data-intensive applications for individuals (such as video conferencing or streaming) and organizational change from business (including Cloud storage and computing, home-based work)	<p>Disruption in the digital infrastructure supply chain, resulting in a higher cost of inputs (such as IT equipment and energy) and delays in investment projects</p> <p>Organizational changes stemming from social distancing of workers, resulting in higher costs of operations</p>
Long-term (after lockdown)	<p>A shift in consumer behavior, including permanent change in usage patterns for individuals and increased virtualization of business operations—both public and private—to strengthen resilience</p> <p>Income loss resulting from unemployment and the exit of private sector businesses</p>	Exit of critical suppliers and distributors resulting from financial distress

TABLE 6.1 Potential Demand and Supply Shocks of COVID-19 on Digital Infrastructure
Source: IFC.

difficult to enforce. Also, many digital infrastructure companies have resorted to home-based work, generating higher operating expenditures as they invest in additional, quality teleconferencing as well as data hosting services, shifting from office-centric to home-centric organizations. These negative short-term supply shocks may be compounded with long-term shocks due to the potential exit of critical suppliers or distributors post-crisis because of increased financial distress.

A further positive shock may come from the consideration that the value of digital connectivity may experience an upward shift as a result of the COVID-19 crisis. It is likely that governments and consumers will consider connectivity a necessity, and may even begin to identify Internet access as a basic human right. Prior to COVID-19, digital connectivity was often viewed as a “good to have,” a second-order priority compared to other infrastructure. The COVID-19 crisis may induce an upward shift in the value of connectivity, one that is likely to affect consumer demand as well as public policies, particularly with regard to digital inclusion for the poorest.

The magnitude of these shocks will vary significantly across countries according to their income levels, across digital infrastructure sub-sectors, and across

companies—depending on their business model before the crisis (Table 6.2).

High-income countries (HICs) are likely to face bigger demand shocks and smaller supply shocks than emerging markets. Increased usage of digital connectivity is expected to be larger in HICs than emerging markets due to differences in network technologies, levels of economic development, and the development stage of their digital economies. HICs have a larger capacity and more robust networks than emerging markets to support a surge in Internet traffic, due to greater access to fixed network technologies (copper, fiber optic, and TV cables).²²⁴ The capacity of mobile networks, which are the dominant broadband access technology in emerging markets, is shared among users and is therefore more sensitive to surges in demand. The informal sector accounts for a larger share of economic activity in emerging markets—86 percent of workers in Africa and 68 percent in Asia-Pacific, according to the International Labour Organization (ILO)—limiting the enforcement of social distancing (especially stay-at-home orders).²²⁵ As a result, the increase in network traffic is expected to be more limited in emerging markets.

In middle-income countries, where social distancing can be more effectively enforced, nascent digital

	Emerging markets vs. high-income countries	Broadband vs. data-hosting sector	Integrated vs. specialized/ independent companies
Demand shocks (positive)	–	–	=
Demand shocks (negative)	+	–	=
Supply shocks (negative)	+	+	–
Upward shift in the value of digital connectivity	+	=	=

TABLE 6.2 Relative Magnitude of COVID-19 Shocks on Digital Infrastructure

Source: IFC.

Note: Large (+), small (–), or limited (=) magnitude of shock. Emerging markets include middle- and low-income countries. The data hosting sector includes data center colocation and cloud service providers. Integrated companies control two or more segments of the digital infrastructure value chain. For instance, a mobile network operator controls both the last mile connectivity segment, towers, and wholesale broadband networks. Specialized companies focus on a specific segment of the value chain, such as a tower company or an independent data center operator.

ecosystems and lower levels of digital skills (especially in lower-middle-income countries) could prevent a significant increase in Internet usage at levels comparable to those observed in high-income countries. Emerging markets may, however, experience larger supply shocks due to less integration into global value chains and limited opportunities for local manufacturing to substitute exports. Emerging markets could also gain from an increase in the value of digital connectivity as they tended to prioritize other utilities before the COVID-19 crisis struck.

The broadband sector, including submarine cable and satellite operators, fixed broadband operators, tower companies, and mobile network operators, is likely to be more exposed than the data hosting sector (for example, data centers and Cloud facilities) to the COVID-19 crisis due to different levels of maturity and more complex supply chains. The data hosting sector is more nascent than the broadband sector and, as such, is expected to benefit more from the increased usage of digital connectivity and services—beyond higher Internet traffic. Retail broadband operators—mobile network operators (MNOs) and Internet service providers (ISPs)—typically offer a flat tariff for generous data packages and minimum quality, limiting their ability to benefit from increased data usage. Yet, they may need to incur higher operating expenditures to maintain their networks during traditional off-peak hours, and higher capital expenditures to maintain network quality, thereby potentially experiencing larger supply shocks.

Integrated companies, such as those that control two or more segments of the digital infrastructure value chain, are likely to be better positioned to weather the supply shocks than specialized independent companies such as retail operators (for example, ISP, MNOs, and mobile virtual network operators) and retail data center operators. Integrated network operators can internalize costs resulting from the upstream segment of their value chains. For instance, integrated broadband operators would not have to purchase additional wholesale transmission capacity (national or international) or access network capacity from wholesalers to maintain the quality of connectivity delivered to end users. Likewise, integrated Cloud services providers with their own data centers may be better positioned to respond

to increased demand for data hosting services than specialized Cloud services providers.

Digital Infrastructure in Emerging Markets: Summary of Risks and Opportunities

Based on a review of the shocks discussed above, the following risks and opportunities may arise in the digital infrastructure sector.

Risk 1: The COVID-19 crisis could widen the gap in digital connectivity between and within emerging markets as quality degrades further and affordability worsens in the most challenging markets

In the short run, emerging markets, which mainly rely on mobile networks for connectivity, could experience a decline in broadband quality—with lower speeds and higher latency—because of the substantial increases in demand for digital connectivity. Such a decline in quality could be greater in nascent digital economies, landlocked or island countries, as well as in rural areas and for women. These impacts could be worsened by negative supply shocks resulting from disruptions in digital infrastructure supply chains and organizational changes in broadband infrastructure companies. The higher cost of inputs such as IT equipment and delays in investment projects could limit the ability of broadband operators to respond to increased demand. Likewise, the social distancing of digital connectivity workers could also limit response to increased usage.

In the medium run, consumers in emerging markets, including individuals and businesses, may suffer from the lower affordability of digital connectivity resulting from income losses (due to a potential rise in unemployment or underemployment, and poor business performance)—especially in sectors such as hospitality, travel, and offline entertainment. This impact would be larger for workers and businesses that are more exposed to the macroeconomic effects of the outbreak. As a result of lower affordability, access to the new generation of broadband technologies (fiber or 5G for businesses and 3G/4G for individuals) may be limited, as the return on investment could be lower than it was before the crisis.

Access to and usage of data hosting services in emerging markets may not be affected negatively in the short run as Cloud services providers can rely on data centers outside their local markets.

Risk 2: The digital infrastructure sector could become less competitive, with potential concerns about its resilience and inclusiveness due to negative supply shocks on specialized/independent operators

Negative supply shocks such as disruptions to digital infrastructure supply chains and organizational changes, as well as the exit of critical suppliers, could result in the limited growth of specialized companies, the potential exit of smaller but fast-growing broadband network operators, or the suspension of wholesale data center projects. This may lead to more concentrated markets, limited availability of open-access broadband infrastructure, or less technological innovation (for example fiber networks). Digital infrastructure companies with lower margins, typically new entrants or players in contestable markets, are likely to be affected by short-term demand shocks, potentially weakening market competitiveness.

Less-competitive digital connectivity markets and reduced affordability could result in fewer incentives to invest, thereby limiting the resilience of digital infrastructure—especially in markets that mainly rely on mobile networks. Also, the exit of smaller network operators or Cloud services providers from some emerging markets resulting from negative supply shocks could limit access to digital connectivity for low-income individuals and micro, small, and medium businesses (MSMEs).

Risk 3: Reduced access to finance for digital infrastructure companies

Against the background of a general reduction in funding to emerging markets following the COVID-19 crisis, the negative medium-run impact on demand for digital connectivity, compounded with the greater fragility of specialized/independent broadband operators, may make them less attractive to commercial investors. This risk may be exacerbated by increased country risks for low-income countries. A lack of financing may also delay investment in 4G/5G in emerging markets, which in turn could slow the expansion of the digital economy. However, the increased value of connectivity and the robustness of certain sector segments (such as incumbent operators, integrated companies, and data hosting facilities) may buck the negative financing trend.

Opportunity 1: The value of digital infrastructure increases and connectivity is seen as a necessity or a right

The upward shift in the value of digital connectivity may drive increased demand for connectivity. High-income consumers would be willing to pay more for digital connectivity, potentially limiting the decline in average revenue per user observed in most emerging markets.

The long-term shift in consumer behavior toward more resilient technologies could support higher demand for Cloud computing and therefore for data center capacity. As businesses, both public and private, increase the use of online services in their operations, emerging markets could experience a surge in data center capacity. Long-term financing may support this change—although with the risk of large incumbents benefitting the most. If Internet access is perceived as a right, the digital sector may experience an increase in public subsidies to support more aggressive universal access policies, with an emphasis on the underserved, including women.

Opportunity 2: Digital infrastructure companies migrate toward diversified business models

Demand and supply shocks from COVID-19 may drive broadband operators to monetize revenue upside from digital payments, digital content, and digital data (for example, credit scoring, human mobility tracking, targeting of social policies). Cloud services providers could integrate with data center providers and monetize digital data (for example, smart cities, or smart-grid applications using artificial intelligence).

Opportunity 3: Public policies become more supportive of investment in digital infrastructure and more pro-digital

Governments may accelerate policies for connectivity, and the sector may become a policy priority. Accelerated policies may result in direct public interventions in the rollout of digital infrastructure, especially at the wholesale level and in hard-to-reach areas.

Changes that could lead to increased investment opportunities may include: (a) fast-track availability of radio spectrum (like in South Africa),²²⁶ (b) policies supportive of infrastructure sharing, (c) reductions in sector-specific taxation on digital infrastructure companies and equipment, which are often seen as

Analyst	GMSA	TowerXchange	Telegeography	GlobalData
Main focus	MNOs & Regulators	Tower companies	Broadband network operators	Data storage & Cloud*
Regional focus	Global	Global (U.S. at present)	Global	Global
Key challenges	Churn down, usage up Increasing requirements for network resilience Delays in network rollout A potential slowdown in consumer 5G adoption	Broadly resilient—similar to the 2008 financial crisis: critical infrastructure, consume a fairly modest share of carrier Opex, and long-term contracts	Increased data traffic along the broadband value chain, including submarine cables	Depends on verticals: Decline in demand due to delays in key IT projects Surge in demand for Cloud and edge computing
Sources	GSMAi (a), GSMAi (b), GSMA	TowerXchange	Telegeography	GlobalData

TABLE 6.3 COVID-19 Impacts on Digital Infrastructure—Summary of External Analyst Reports

* The focus of the GlobalData report is beyond the data storage and cloud.

“cash-cows” by governments, (d) implementation of asymmetric regulations to support smaller operators, and (e) promotion of flexible data sovereignty law to enable offshore data hosting for certain sectors. Fiscal pressure from COVID-19 and lower oil prices may also drive some countries to embrace sector reform.

Opportunity 4: Development finance has an opportunity to step up financing for an industry with strong, long-term potential but also requirements for substantial upgrades and innovation in emerging markets—including support for 5G technologies that could increase resilience across multiple sectors

Immediate actions may include the provision of working capital or equity investment, especially for

independent operators, in broadband sectors in the most challenging emerging markets. Such actions could help soften the shocks and preserve the competitiveness of the digital sector. Financing support could enhance market competitiveness as operators in need will be those that are ensuring market contestability.

Medium- to long-term plans could seek to strengthen resilience and inclusiveness of the digital infrastructure sector by supporting investment in redundant digital infrastructure and enabling expansion of Cloud services providers and broadband operators in hard-to-reach areas. More public-private partnership (PPP) projects could require financing as a result of increased government interventions in the digital sector. ■

CHAPTER 7

Lessons for Electric Utilities from COVID-19 Responses in Emerging Markets

By Stefan Apfalter, Martin Hommes, Miguel Pereira Mendes, and Natsuko Toba

The COVID-19 pandemic and the resulting economic shutdown have severely depressed electricity demand across the globe, with acute consequences for the revenues and financial health of utilities, as well as smaller providers of utility services and off-grid companies. In many places, utility service providers also must manage the inability of consumers to pay for their services. Government support has been forthcoming, but utilities need to work closely with policymakers to ensure that programs are carefully designed in order to maintain ongoing system reforms, competitiveness, and affordability, and avoid long-lasting market disruptions. These support measures should avoid redundancy among sectors and ensure that resources are efficiently allocated and that welfare improvements are fairly distributed across the country in a sustainable manner. Investors must also understand changes to utilities' finances and should work to support further reforms.

COVID-19 Impacts on Revenues

Electric utilities face significant revenue loss because of the COVID-19 economic crisis. Global electricity demand is expected to contract by 5 percent in 2020, the largest decline since the Great Depression.²²⁷ The lockdown measures in response to the crisis have significantly reduced demand for electricity in the commercial and industrial sectors. By contrast, residential demand increased because people were spending more time and undertaking additional activities at home, such as teleworking. After the lockdown eased, electricity demand started to rebound in many countries, beginning in July 2020. For example, the decrease in electricity demand in China in February 2020 compared to February 2019 was 10 percent, and after the ease of lockdown, demand in May 2020 is 1 percent below the level reached last year during the same month (weather corrected). In South Africa, reduced demand during a three-week lockdown that began on March 26 is estimated to result in revenue loss of R 4 billion (US\$240 million) for an electric utility.

The net effect of the pandemic on demand varies from community to community. For example, in India, national peak power demand declined by 33 percent from February to April 2020 due to the factory and office closures in the commercial and industrial sectors, which account for over 50 percent of India's total electricity consumption.²²⁸ The increased domestic demand failed to offset the decline in the overall demand for electricity. The demand for electricity in India is expected to be 7 to 17 percent lower by 2025 due to the COVID-19 economic shock, compared to a scenario without the shock.²²⁹ Colombia, where residential consumption represents a large proportion of demand, witnessed an increase in consumption, balancing the decline in industrial demand.

Even countries without domestic lockdowns, such as some countries in Sub-Saharan Africa (SSA), are indirectly impacted. Lockdown measures outside their countries and border controls have led to large drops in trade and/or tourism-related sectors that require electricity, and/or remittances that depress domestic purchasing power.

Many countries suspended meter-reading and physical delivery of bills during lockdown. For example, as a result of the lockdown in Nepal since March 25, 2020, the electricity bill collection rate dropped to less than 10 percent from the average around 95 percent. A vertically integrated public electric utility in Nepal tried to increase consumption with a 20 percent price discount for monthly consumption below 150 units for March–April 2020, which would be a loss of NPR 500 million (US\$4 million). Yet, still less than NPR 10 billion (US\$83.5 million) has been collected over the last cycle compared to average monthly collections of NPR 60 billion (US\$501 million) as of June 2020.²³⁰ Billing based on average consumption of the previous months could be a sizable underestimate due to seasonal consumption variations. To overcome this challenge, the Indian state of Telangana is billing consumers on the consumption of the same month in the previous year. For unmetered customers, the volume of electricity consumption used to determine their bills can be based in designing the tariff relief.

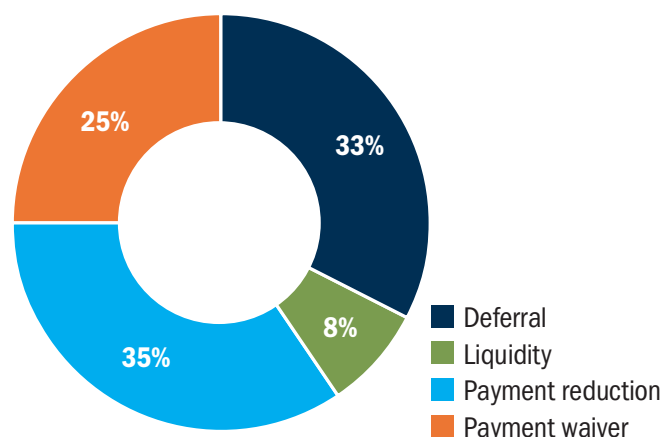


FIGURE 7.1 Composition of Measures in 67 Sample Countries

Source: IMF, World Bank Group. Note: Utilities include electricity (87 percent), water (57 percent), gas (10 percent), telecommunication (9 percent), sanitation (4 percent) and cable television (4 percent). The data were collected from the IMF Policy Response to COVID-19 tracker and WBG documents, which are verified and updated by the CCE team with further web searches, e.g., national web-news, government and utilities. During the verification and updating process, more countries' data were found and added. External documents shared by WB are also included. Thus, since the data were based on availability, the results are not complete statistical survey results. The categories are defined as (i) deferral: full or part of tariff/charges, (ii) payment reduction: tariff/charges, (iii) waiver: full tariff/charges and (iv) liquidity: direct/indirect, e.g., suspended taxes to allow operations, liquidity loans/grants, partly financing operations, and equity.

Utilities' revenues were also affected by government measures allowing for non- or reduced-payments by consumers, payment deferrals, and prohibiting disconnections (Figures 1 and 2). Deferrals have obvious advantages over payment waivers since payments will take place later. In addition, customers who can pay or mistrust the utilities' handling of deferred payments will continue to pay on time (for example, in Madagascar).

Off-grid companies and small utilities risk higher revenue losses. The off-grid power industry consists of relatively small start-ups and small and medium enterprises, and serves mostly low-income customers who may delay or default on their payments. For example, lacking other sources of revenues, 67 to 75 percent of surveyed mini- and off-grid companies have only two months or less of operating expenses available, which underlines the urgent need for bridge financing.²³¹ In Africa, including Kenya, Senegal, and elsewhere, governments have allowed off-grid companies to remain open as essential services.²³²

COVID-19 Impacts on Costs

Many utilities' unit costs increased due to extra costs (e.g., health protection for workers, power purchase obligation, etc.) and large fixed costs. Declines in energy sales to profitable industrial and commercial consumers, which can be as much as 70 percent of electric utilities' revenues (e.g., in Sub-Saharan Africa), can create a liquidity crunch for utilities with predominantly fixed costs. The loss is severe where those consumers cross-subsidize other consumer categories, such as in the case of India and Nepal in the power sector. Fixed charges for electric utilities' services have been waived in some countries, such as Mozambique and some states in India. In another example, in March 2020, a South African utility sent force majeure notices to independent wind farms on energy curtailment, while the utility would compensate them for their lost production. In contrast, low electricity demand during the lockdown and increasing wind and solar capacities have collapsed U.K. power prices this year and curtailment costs have soared. A grid company's electricity system operator in the U.K. expects to spend another £500 million (US\$590 million) to balance the grid this summer, mostly

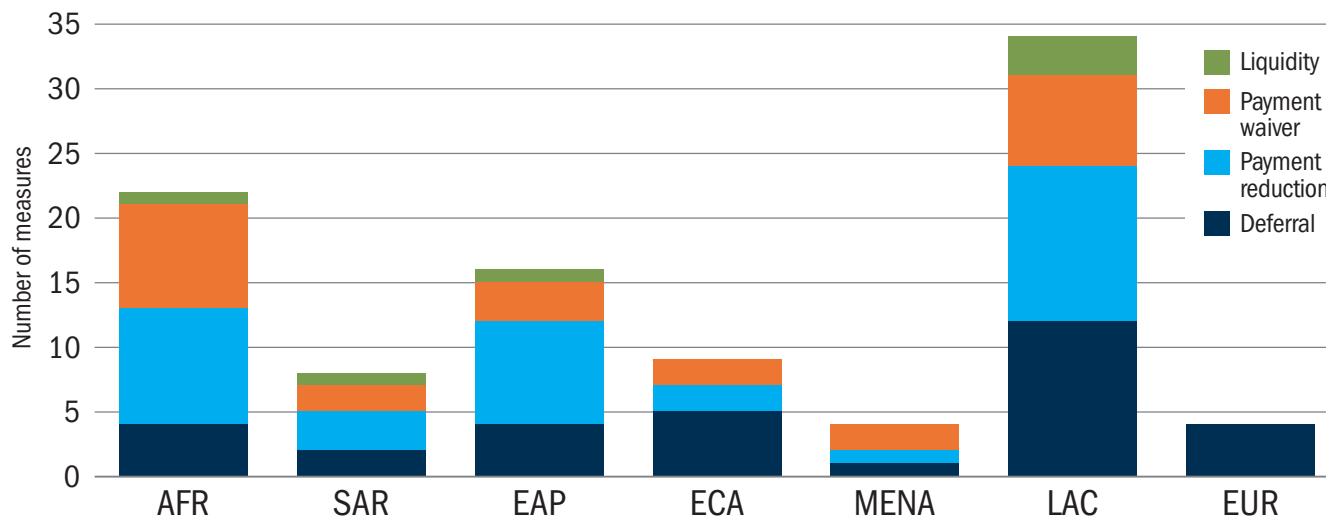


FIGURE 7.2 Number of Relief Measures in 67 Sample Countries by Region

Source: IMF, World Bank Group. Note: Regions according to World Bank Group regional classification: AFR = Sub-Saharan Africa; SAR = South Asia; EAP = East Asia & Pacific; ECA = Europe & Central Asia; MENA = Middle East & North Africa; LAC = Latin America & Caribbean; and EUR = Western Europe (not part of ECA).

paying wind farms to stop generating. In total, the grid company expects to spend £826 million (US\$980 million) to balance the grid in the period May to August 2020.

In India, the ‘Must Run’ status of renewable energy power generators remains unchanged, obliging distribution companies (DISCOMs) to pay for the unconsumed power. Despite a drop in input (fuel) prices, average cost of supply (ACoS) will increase because DISCOMs have long-term power purchase agreements (PPAs) with generation companies, which usually do not allow pass-through of fuel cost reductions, and under which they must pay capacity charges (linked to plant availability for thermal and large hydro plants and “must run” status for nuclear and renewable energy). Preliminary analysis indicates ACoS will increase by 13.5 percent.²³³ In other countries such as Nepal, the ACoS of the electric utility without reforms is projected to increase much more (by 72 percent) from NPR 12/kWh (US\$0.10) per unit in FY2020 to NPR 20.7/kWh (US\$0.175) per unit in FY2024.²³⁴

Government financing to targeted consumer tariff relief is not likely to cover the liquidity shortfall of many utilities due to large fixed costs. For example, a large-scale cash transfer program for basic electricity for poor households in Peru covers only 11 percent of

total demand and would not help liquidity shortfalls. Often, public utilities with limited access to commercial financing sources to bridge the liquidity crisis are the most affected and require different approaches such as guarantee support measures.

On the other hand, cancellation of power purchases is a financial loss to independent power producers (IPPs). In Canada, a public utility has cancelled \$20 million (whether the currency was in US dollars or Canadian dollars was not available) worth of electricity purchases from six private run-of-river hydro power facilities, citing the pandemic as a force majeure event. In Pakistan, some private wind power producers (WPPs) have raised concerns with the government as their power generation has been curtailed, which results in irreparable loss to WPPs (under a single tariff as opposed to a tariff bifurcated between capacity and energy payments) and which is against the Energy Purchase Agreements, the Renewable Energy Policy, the Power Acquisition Request, and the tariff determination.²³⁵ In SSA, 40 percent of power is supplied by IPPs who may risk payment by utilities. Before the crisis, 44 percent of SSA utilities met operation and maintenance costs and debt services, but with the crisis only 6 percent are expected to do so (assuming 15 percent demand drop and 10 percent collection reduction).²³⁶

Delays in power generation projects due to lockdown have large costs for governments, the private sector, and society. For example, in Nepal, completion of 24 hydropower projects with a net 1.2GW is expected to be pushed back at least two years.²³⁷ The losses from delays in new projects in the past six months alone will amount to NPR 13 billion (US\$109 million), and existing hydropower plants have not been operating due to the lack of maintenance, spare parts, and transport of materials. Interests for loan repayment must be paid even as work has stopped. Private sector projects have borrowed NPR 750 billion (US\$6.3 billion), more than double the banking sector, for ongoing construction of plants up to 3GW.²³⁸

There is commitment from banks for another NPR 300 billion (US\$2.5 billion) worth of hydro projects in the pipeline. These costs of construction would rise by an additional 15 to 20 percent, likely resulting in no profit margin for private producers. The private sector has been demanding (i) compensation from the government for project delays, (ii) a two-year deadline extension for projects, and (iii) a 1 percent customs tariff on construction material instead of the current 5 percent. Looking at other country examples, in Cameroon, all parties declared force majeure in a hydropower project for construction. In Ghana, a gas project with a guarantee support by an international finance institution will face high risks of nonpayment as it drew on the letter of credit. Chile ruled out new tenders due to electricity demand estimated to fall 5.4 percent in 2020.²³⁹

COVID-19 Net Impacts

Due to the ongoing pandemic, estimates are uncertain, but potentially significant. For example, the Nepal electricity sector is likely to experience an additional financial viability gap of NPR 137 billion (US\$1.1 billion, no information available about nominal or real prices and discount rate) without tariff increases in the next 10 years. The loss of DISCOMs in India is expected to increase to Rs 50,000 crore (US\$6.7 billion) in FY2021, or up by 67 percent from FY2020 (nominal prices).²⁴⁰ A South African electric utility's debt was at R 450 billion (US\$25 billion), equivalent to 9 percent of 2019 GDP in nominal prices, which investors and

ratings agencies identified as the government's biggest contingent liability. As a result of COVID-19 impacts, on May 2020 the South African government announced its allocation of R 33 billion (US\$2 billion) for the utility in 2020/21 for purchase of equity.

Similarly, very few estimates are available of net impacts on the economy that are attributable to the electricity sector but could be substantial. In India, the waning financial performance of the electricity sector will have knock-on effects in the financial sector, which already carries a disproportionately large share of power sector nonperforming assets (for example, assets representing 22 percent of India's installed power-generation capacity were reported to have burdened Indian banks as nonperforming assets in 2018).²⁴¹

Mitigation Measures to Protect Financial Viability of Utilities

Within an available data sample of 67 countries, only eight countries were found to have direct and indirect government liquidity support to utilities (Figures 7.1 and 7.2). Those include (i) performance-linked liquidity loans in India, (ii) use of reserve and investments funds to support liquidity in Peru, (iii) liquidity including loans in Brazil, (iv) liquidity in Pakistan, (v) government financing of chlorine procurement for safe water in Mexico, (vi) government purchase of equity of a utility in South Africa to relieve solvency challenges of the utility and to indirectly improve the liquidity position of the utility, (vii) a stabilization fund on conditions to retain the workforce in South Korea, and (viii) tax suspension on potabilization products for water treatment in Colombia. Twenty-nine countries (43 percent) of the sample involved government budget support for the utilities, but they are mostly focused on the consumer tariff measures.

COVID-19 provided an opportunity for some utilities to conduct much-needed structural reforms. India used the crisis as an opportunity to accelerate power sector reforms, which, among other things, include provision of loans linked with performance and privatization. A South African electric utility is to dispose of some of non-core assets to raise capital and reduce its mounting debt. The utility developed an aggressive turnaround plan for one of its subsidiaries that incurred millions

of and in debt by deviating from procurement guidelines. Côte d'Ivoire has recently completed a debt restructuring of a public electric utility company and is ensuring good-practice standards with well-targeted tariff measures. The country is also updating the power sector plan and the least-cost power development plan and recalculating revenue requirements for the sector. The utility's good practices will help sustain the momentum achieved before the COVID-19 outbreak. Good planning with regular updates and execution are limited in many utilities in emerging market economies. In the past, opportunistic sector reforms were overtaken by events (for example, a power crisis, the end of civil war, etc.), which lacked a proper roadmap incorporating the limited capacity of the client countries and were unsustainable. The Nepali government has been working to improve the financial viability and governance of the electricity sector with a series of programmatic development policies supported by an international finance institution, and a second development policy financing, which incorporated the COVID-19 impacts, was approved on June 2, 2020. COVID-19 and its consequences have also provided the impetus for reform; for example, active dialogues on electricity sector reform in Pakistan.

Measures that incur extra costs could contribute to sustainable long-term benefits. For example, due to containment measures, demand-side management (DSM) measures are sometimes being postponed (smart meter installation in Brazil, for example). But in South Africa, the utility is encouraging DSM as it expects a rebound of electricity demand after the lockdown. A DSM campaign five years ago saved 350 MW.

Recommendations for Utilities and Investors

The following recommendations are based on broader reviews of the impacts of COVID-19 on utilities, some of which were highlighted above. Many of these recommendations were fundamentals of the electricity sector and not specific to COVID-19, which underlines the utmost importance of ensuring such fundamentals.

During the crisis, utilities should work with governments to make sure that support programs avoid redundancies and ensure that welfare improvements are fairly distributed.

- **Electric utilities should seek balanced government support.** Targeted support for consumers without matching support for utilities' liquidity gaps may not always help utilities/IPP's facing plunging energy demand, given their relatively large fixed costs. Such liquidity constraints could be dire for many small off-grid companies that serve rural and/or low-income consumers. Unbalanced support will impair the sector's viability.
- **Electric utilities should avoid potentially redundant support programs.** For example, in a case where the government has already been supporting the liquidity and working capital of small businesses, utilities should avoid supporting these same businesses with payment relief. Utilities should align their support programs with other government measure to optimize resource allocations.
- **Cross-subsidization by commercial and industrial customers for residential (and in some cases agricultural) consumers should be carefully reassessed.** Cross-subsidization among and/or within customer categories has been a long-standing practice for many utilities, regardless of COVID-19. However, since these subsidizing commercial and industrial energy consumers at higher tariff have also reduced their demand during the lockdown, utilities' revenue losses could be even greater. Higher tariffs paid by industrial and commercial consumers could increase the prices of goods and services they produce, which will reduce their competitiveness and could ultimately decrease affordability of those goods and services for the poor. There are cases where residential consumers cross-subsidize industrial and/or commercial consumers. However, in the context of COVID-19, it was widely reported that the utilities' financials were negatively affected when industrial and/or commercial consumers subsidize residential consumers.
- **Electric utilities should ensure that consumers understand that COVID-19-related tariff relief will be temporary, with a clear exit strategy.** As a norm, utilities should aim to design, implement, and closely monitor relief measures in a targeted manner with clear eligibility criteria to ensure that the most vulnerable benefit while minimizing costs overall.

- Electric utilities should seek government support tailored to their situations (e.g., macroeconomic, governance, consumer profiles, costs of utility services, tariff structures, power purchase agreements, financial and operational performance of utilities, geography, climates, power generation technology mix, etc.). Such support should be linked to performance, based on evidence, and as part of a reform roadmap supported by strong monitoring and evaluation systems (rather than opportunistic reforms) to efficiently use resources, improve performance, and ensure sustainability. The reform roadmap could include digitalization and system flexibility improvements as variable renewable energy integration advances, especially to deal with the curtailment of variable renewable energy. Reserve thermal generators could improve acceleration of start-time, start-stop cycles, and ramp capabilities²⁴² to be flexible to adapt to extreme load changes. Energy storage technologies could be used to move variable renewable energy to times when it is required and provide a stack of services to balance the grid. Demand response could provide an opportunity for consumers to play a significant role in the operation of the electric grid by reducing or shifting their electricity usage during peak periods in response to time-based rates or other forms of financial incentive. Use of a smart grid technology could be used to enable increases of prosumers.²⁴³
 - Electric utilities should fully understand the costs and benefits of proposed support and reform measures in the short, medium, and long terms, and their implications on net welfare and distributional impacts.
 - To be better prepared for future crises, electric utilities should aim to maintain cash reserves and consider purchasing insurance products that provide coverage for business interruptions. Clear financing policies can provide guidance to respond to revenue shortfalls. While insurance may not address all challenges, policy can be accommodative in case of future disruptions. Regulatory and bond rating agencies should support utilities that seek to boost emergency reserve funds.
- In many emerging market countries, it is even more important that an independent and technically capable regulatory authority be established and functioning.** Such a regulatory authority could be consulted, and could review and approve the proposed measures that result in cost increases, financial costs, revenue deferral, and revenue decline to ensure long term economic sustainability, and also manageable liquidity impact.
- Investors should support the aforementioned reform roadmap, especially digitalization and system flexibility improvement, which will improve the resilience of the system and mitigate the financial loss of those investors from curtailments of the variable renewable energy. ■**

CHAPTER 8

When Trade Falls—Effects of COVID-19 and Outlook

By Ibrahim Nana and Susan Starnes

The COVID-19 pandemic represents an unprecedented challenge to the global economy. Trade, integral to growth and economic development, is under pressure as a result of the pandemic. While trade is a channel through which economic crises can spread, it is also an essential component of growth, survival, and post-crisis recovery. As most countries take measures to protect their citizens from the virus, economies are suffering from resulting drops in production and consumption. This is further exacerbated as each country's slowdown also contributes to the drop in trade, which in turn amplifies the economic challenge with cross-border demand and supply shocks. The economic pain from the virus could be especially severe in some emerging market and developing economies (EMDEs), because many of them were already facing limitations and obstacles prior to the pandemic. These preexisting limitations reduce the capacity these countries have to address the pandemic's effects, putting their resilience at risk.

This chapter, the first in a series of notes on trade and COVID-19,²⁴⁴ compiles trade-related findings from over 70 “Daily News Summaries” prepared internally for IFC, as well as data sources from March 24, 2020 to August 1, 2020.²⁴⁵ The chapter provides an overview of this year's multi-body trade forecasts and the extent to which those forecasts were realized as reported across various publications. It also highlights trends leading up to the pandemic and provides examples of how the pandemic is affecting trade in a few select cases. Finally, it offers a preliminary outlook on the future of trade, incorporating certain paradigm shifts that have been expedited by unique facets of the current crisis.

In April the World Trade Organization (WTO) forecast a 12.9 percent drop in world merchandise trade in 2020, much of that decrease due to the COVID-19 crisis and national responses to it. The WTO has recently revised its forecast to a 9.2 percent decline this year, which is still severe compared to previous years. And downside risks remain, especially if there is a resurgence in COVID-19 cases, as many nations have begun to experience in recent months.

The chapter's authors have updated data in the note as new information has emerged. It is significant to note that despite continuing fluctuations in trade and economic data, our analysis and conclusions have remained relatively constant: global trade is at risk, yet it is also an important component of both basic economic function and crisis recovery.

“...The [lockdown] has resulted in simultaneous supply and demand shocks which affected almost all the sectors. SMEs are also facing challenges ranging from liquidity crisis to supply chain disruption, resource and inventory breakdown, and a sudden drop in demand. On the export side, the major export destinations ... are [holding and cancelling orders]. Though it has been only [a very short time], the pandemic has had large-scale impact. The situation is evolving rapidly.”

—A representative IFC client bank, reflecting similar input across countries and clients

BOX 8.1 Key Takeaways

- The COVID-19 pandemic has put significant downward pressure on trade, which was already facing new challenges prior to the pandemic. The measures that countries have taken to protect their citizens from the pandemic have disrupted supply chains and generated both demand and supply shocks.
- In line with early predictions, global trade fell dramatically in the first months of the pandemic, with declines that exceeded those observed during the 2008-2009 global financial crisis. Global trade dropped by 6 percent in 1Q20 Year on Year (“YOY”), followed by a steeper drop of 21 percent YOY in 2Q20. The volume of trade also fell by 3 percent in 1Q20 compared to 4Q19 and continued its decrease in 2Q20, falling by 14 percent.
- Developing countries have not been spared from reduced trade volumes despite the delayed increase in the number of COVID-19 cases and the low death toll for some EMDEs.
- In the short term, trade is likely to continue to fall. The course of the economic recovery is dependent on the evolution of the disease and the proximity and mass rollout of a vaccine or cure. However, the depth of the fall in trade is also dependent on the availability of trade finance; studies show that a shortage of available trade finance was a significant driver of the drop in trade in 2008-2009.
- As the world emerges from the crisis over the medium term, trade can help expedite economic recovery for many countries. In addition, global inventory management strategies may change and innovations in trade digitalization will continue, each offering potential for trade growth. Finally, trade corridors may shift post-pandemic, offering opportunities for high-potential countries to take on greater leadership roles in regional trade networks.
- In emerging markets and developing economies, as the pandemic resolves, trade ecosystem changes offer new opportunities for growth through trade. However, the realization of such opportunities presents challenges that require a large set of stakeholders—both within these countries and from more advanced markets—to engage.

Forecasts have predicted a severe trade contraction in 2020

As COVID-19 spread across the world, several institutions issued forecasts of a likely trade contraction in 2020. The severity of these forecasts is the result of both the trade landscape immediately prior to the pandemic and the economic effects of the pandemic.

World trade was already under stress and showing signs of contraction in 2019, prior to the pandemic.

Unlike “The Great Trade Collapse” of 2008-2009, the world entered 2020 with preexisting trade stress. Global merchandise trade stalled in 2019, due primarily to persistent trade tensions among several major global trade contributors, increased tariffs, and decreases in prices of several commodities. Merchandise trade volume had already fallen slightly since 2018, slowing economic growth, which is historically highly reliant on trade growth. The dollar value of world merchandise exports

in 2019 fell by 3 percent to \$19 trillion, with pressure across most regions, as shown in Table 8.1 below.²⁴⁶ The dollar value of world merchandise exports was down in all four quarters in 2019 compared with the previous year, with the strongest declines recorded in regions that export natural resources (lower oil and commodity prices reduced the overall value of exports).

Regions	Exports	Imports
North America	1%	-0.4%
South and Central America	-2%	-2%
Europe	0.1%	1%
Asia	1%	-1%
Other Regions ²⁴⁷	-3%	2%

TABLE 8.1 2019 Merchandise Trade Volume by Region (annual percentage change)

Source: Data from WTO secretariat.

Source	Date	Goods (g) / Services (s)	2020	2021
WTO	October	g	-9%	7%
World Bank	June	g + s	-13%	5%
IMF	June	g + s	12%	8%
OECD	June	g + s	-9% to -11%	6% to 2%
UNCTAD*	June	g	-20%	
PIIE	17-Apr	g	-24%	

TABLE 8.2 World Trade Volume Projections

Source: WTO Secretariat, International Monetary Fund, World Bank, Organisation for Economic Co-operation and Development, Federal Reserve Bank of Philadelphia, European Central Bank, The Peterson Institute for International Economics (PIIE).

*UNCTAD projections concern trade value.

Note: Cells with two values correspond to optimistic and pessimistic forecast.

In 2019, the world's top ten exporting countries and nine of the top ten importing countries reported negative growth rates for exports and imports.²⁴⁸ Thus trade, already weakening, has come under further pressure due to COVID-19, and has been forecasted to decline further.

Several Institutions have forecasted negative growth for trade

Trade is expected to fall in 2020 in all regions because of the pandemic. By April 2020, at least six institutions²⁴⁹ forecasted a reduction in trade flows arising from COVID-19 pressure on economic activities. The World Trade Organization (WTO) recently predicted a drop in global merchandise trade volume of 9 percent in 2020, less than the 13 percent drop foreseen in the optimistic scenario from the April trade forecast but still severe.^{250,251} This was followed by the release of forecasts from The Peterson Institute for International Economics (PIIE), the International Monetary Fund (IMF), The World Bank, the Organisation for Economic Co-operation and Development (OECD), and the United Nations Conference on Trade and Development (UNCTAD), all of which predicted significant slowdowns in global trade that are similar to the WTO view, as shown in Table 8.2: World Trade Volume Projections. Estimates from UNCTAD have predicted a 27 percent drop in trade during the second quarter of 2020 alone. Beyond 2020, several organizations provided forecasts for 2021, predicting a limited recovery.²⁵²

Across all regions, both merchandise imports and exports are expected to fall in 2020, as shown in the

range of merchandise exports and imports contractions forecasted below:

- **North America:** Exports could fall by 15 percent and imports by 9 percent.
- **South and Central America:** Exports could fall by 8 percent and imports by 14 percent.
- **Europe:** Exports could fall by 12 percent and imports by 10 percent.
- **Asia:** Exports could fall drop by 5 percent and imports by 4 percent.
- **Other Regions**²⁵³: Exports could fall by 10 percent and imports by 16 percent.

The last group (Other Regions) includes Sub-Saharan African countries for which agriculture is a key component of exports, accounting for around 23 percent of GDP and more than 60 percent of jobs, on average.²⁵⁴ Agricultural exports from the continent are worth between \$35 billion and \$40 billion annually. Estimates are that the pandemic could cost African nations as much as \$5 billion in lost agricultural exports and affect the livelihoods of ten million farmers.²⁵⁵

It is important to note that countries that see greater reductions in exports than imports are at greater risk of facing further GDP reductions, foreign exchange (FX) availability, and debt service pressure. Greater reductions in imports may result in challenges with the availability of growth-supporting and life-sustaining goods. Exports for “Other Regions” (Africa, the Middle East, and the Commonwealth of Independent

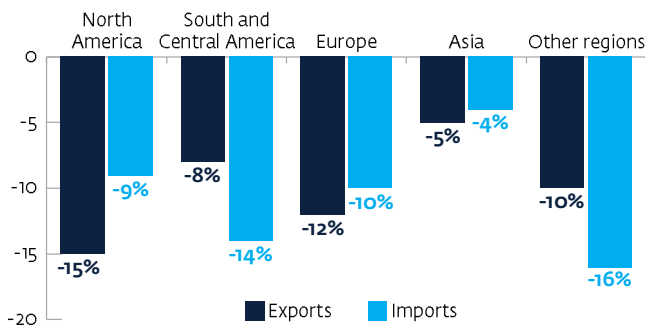


FIGURE 8.1 Merchandise Trade Volume is Predicted to Slump in 2020

Source: Data from WTO secretariat (October 8, 2020)

Note: Other regions comprise Africa, Middle East and Commonwealth of Independent States (CIS) including associate and former member States.

States) are forecasted to fall by 10 percent despite the delay in COVID-19 contagion.

This predicted contraction in global trade can in part be explained by a more connected world which, more often than not, supports growth, as discussed below.

Trade connects countries, driving growth but expediting contagion

Before assessing the spread of COVID’s economic effects through trade, it is important to keep in mind the benefits of trade over time. Even with the projected deceleration in 2020, countries that trade more have typically grown faster and had greater opportunities to advance their individual development trajectories.^{256,257,258,259,260,261,262,263,264,265} Yet, while the trade-growth connection brings a net benefit, it also allows for economic contagion.

The COVID-19 pandemic has affected global trade through both supply and demand shocks, which in turn travel to countries that are connected to each other in many ways, one of which is trade. COVID-19 has affected trade’s ability to supply goods in several ways. On the supply side, the pandemic has pushed authorities to adopt restrictive measures ranging from “internal movement restrictions” to “international border closures” and “required closing (or work from home).”²⁶⁶ While international border closures have reduced air freight capacity, internal movement restrictions and closures have affected businesses, halted industrial production, and limited port activities. As a result, many countries find both their capacity

to produce goods and to export them curtailed; this reduces the movement of products across borders. Production limitations are exacerbated by the inability to source necessary production inputs from abroad.

In addition, the reduction in aggregate demand among the world’s largest importing countries has reduced the ability of many countries to successfully export the goods they do manage to produce. This is driven in large part by COVID-19-related business closings across multiple industries, which in turn negatively affect consumer demand, which was already falling due to social distancing and lock-down measures. This phenomenon is demonstrated quantitatively by the steep decline of many commodity prices. For example, the average price of crude oil²⁶⁷ has registered YOY negative growth from February to July,²⁶⁸ with the largest decrease in April (69 percent). Figure 8.2 depicts the iterative effects of the COVID-19 crisis on supply and demand through magnified supply chain disruptions.

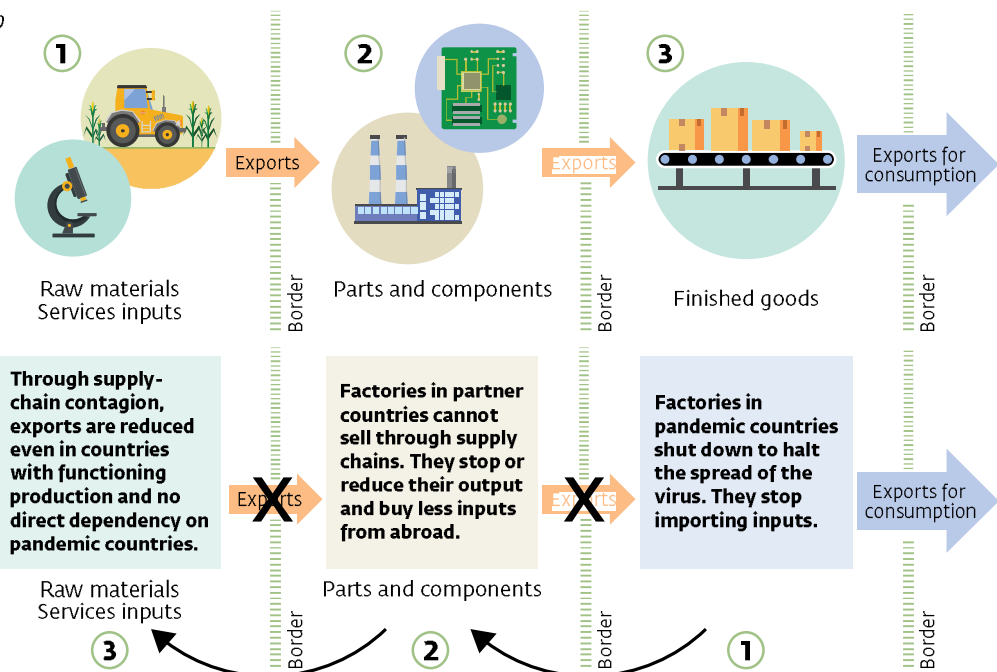
The effects of COVID-19 are particularly pervasive, in part due to the emergence of the “large-hub-and-smaller-spoke” systems that have emerged with the rise of global value chains (GVCs). Over two-thirds of world trade occurs through GVCs,²⁶⁹ in which production crosses at least one border before final assembly. The COVID-19 pandemic hit the three largest GVC hubs early, creating an unprecedented combination of supply and demand shocks.

According to the most recent data, the economic effects of the pandemic, depicted in Figure 8.2, have become a reality, as predicted. Different trade related indicators are reported with different lags, and thus multiple data are tracked to obtain timely information. As presented below, all indicators suggest that negative forecasts for trade were at the very least directionally correct.

Expectations are becoming reality: severe trade stress is evident in falling trade indicators

To date in 2020, the combined set of available trade data shows that trade is falling, driven in large part by COVID-19-related effects. Several trade indicators collected from daily news and different data sources have turned red, confirming global forecasts issued at the early stages of the pandemic. The 2020 trade deceleration was already reaching the worst of

A global value chain breaks up the production process across countries. Firms specialize in a specific task and do not produce the whole product.



The shutdown of factories creates a chain reaction, affecting the trade of other countries, even if their manufacturing facilities are operational and borders are open to trade.

FIGURE 8.2 The Economic Effects of the Pandemic Spread Through Trade

Source: International Trade Center. Adapted from the World Development Report 2020.

2008–09 only a few months into the current crisis.²⁷⁰ Data from different sources illuminates the current decline in trade. From freight and port indicators to international trade data via purchasing managers’ indexes (PMI) and new export orders, the message is the same; international trade volumes are decreasing. The indicators highlighting this decrease include:

- **RWI and ISL container data:** The Container Throughput Index of the RWI and ISL²⁷¹ (which covers container throughput for over 90 international ports and about 60 percent of global container throughput) recorded its biggest ever drop of 11 points, to 102, in February. It continued to fall in April-May, decreasing by 6 to 7 percent YOY in each period. The index rose slightly by 4 percent in June and continued to rise until August (by 1 percent) (Figure 8.4).²⁷²
- **IATA²⁷³ air freight data:** Air cargo capacity measured by industry-wide “cargo tonne-kilometres” (CTKs) contracted by 28 percent YOY in April, the sharpest decline since 1990 and worse than declines observed during the Global Financial Crisis (e.g., -24 percent in January 2009). The downward pressure continued in May (-20 percent YOY), June (-18 percent YOY) and July (-14 percent YOY) with

slow improvements. Air cargo continued to slowly improve in August, with CTKs down 13 percent YOY, compared to previous months.^{274,275,276,277}

- **Purchasing Managers’ Index (PMI):** New export orders measured by PMI decreased between January and February (down 9 percent) and have continued to contract through April (down 37 percent). Later in May, export orders rebounded (increased by 19 percent) and have continued increasing until September (up 4 percent) (Figure 8.5).²⁷⁸
- **WTO Goods Trade Barometer:** The current decrease in trade was also reflected in the 20 May “WTO Goods Trade Barometer,”²⁷⁹ an index that measures actual performance vs. recent trends.²⁸⁰ The index settled at 88 in March and 85 in June, far below the baseline value of 100 and the lowest since 2011, suggesting that a sharp contraction in world trade extended into the second quarter, beyond expectations.
- **World Trade Monitor:** Additional data show that global trade volume fell in March by 4 percent YOY, the largest drop since 2009 (which was six months after the 2008-09 crisis launch point).²⁸¹

- WTO:** According to the most recent data released on September 23, world merchandise trade volumes declined by 14 percent in 2Q20. This contraction is higher than the 10 percent drop recorded during the global financial crisis between 3Q08 and 1Q09. The nominal dollar value of merchandise trade also collapsed in 2Q20, falling by 21 percent YOY. This decline in merchandise trade values is lower than the 33 percent drop reported in 2Q09 (Figure 8.3).²⁸²

The data below illustrates what is happening “on the ground” with trade logistics, as well as the broader economic challenges countries face. For example, some retailers and manufacturers have been unable to pick up cargo and containers because their warehouses are already full or closed, putting perishable products at risk. Estimates suggest that the situation could cost Africa as much as \$5 billion in lost agricultural exports that currently sit in docks.²⁸³ In some cases, ports remained open during lockdowns but had reduced workforce to prevent the spread of COVID-19 among port workers,²⁸⁴ exacerbating cargo congestion.²⁸⁵ Reduction of port activities has affected the shipment of goods around the world, generating unusual shipping routes and making product shipments more difficult, more expensive, and more time consuming (for example, trucks now travel more than 6,000-miles from Beijing to Berlin to fill Germany’s supply gap as air freight fell drastically).

These dramatic decreases in trade-related indicators appear to confirm the forecasted dark year for international trade; the data show trade contractions in both advanced economies and EMDEs.

Developed nations reported signs of a reduction in trade as early as March. These countries experienced a decline in global trade during the first quarter of 2020 (3 percent decline in exports and 6 percent in imports, on average) followed by a much more substantial decline in April. Developed nations’ exports decreased by 14 percent in April from the prior month while imports fell by 10 percent in same period. This decline continued during the second quarter of 2020 (exports volume fell by 21 percent while imports volume fell by 17 percent).²⁸⁶

Emerging markets across all regions have also reported signs of falling trade. While the spread of the virus in several EMDEs lagged other countries, most countries including EMDEs immediately implemented social distancing and lockdown measures, disrupting daily activity across most sectors. In many EMDEs, economic contagion spread prior to confirmation of actual COVID-19 cases, as countries implemented measures to protect against transmission (such as lockdowns), which slowed production and output. This effect was exacerbated in many countries that rely on exports of commodities that experienced severe price drops due to reductions in global demand. EMDE

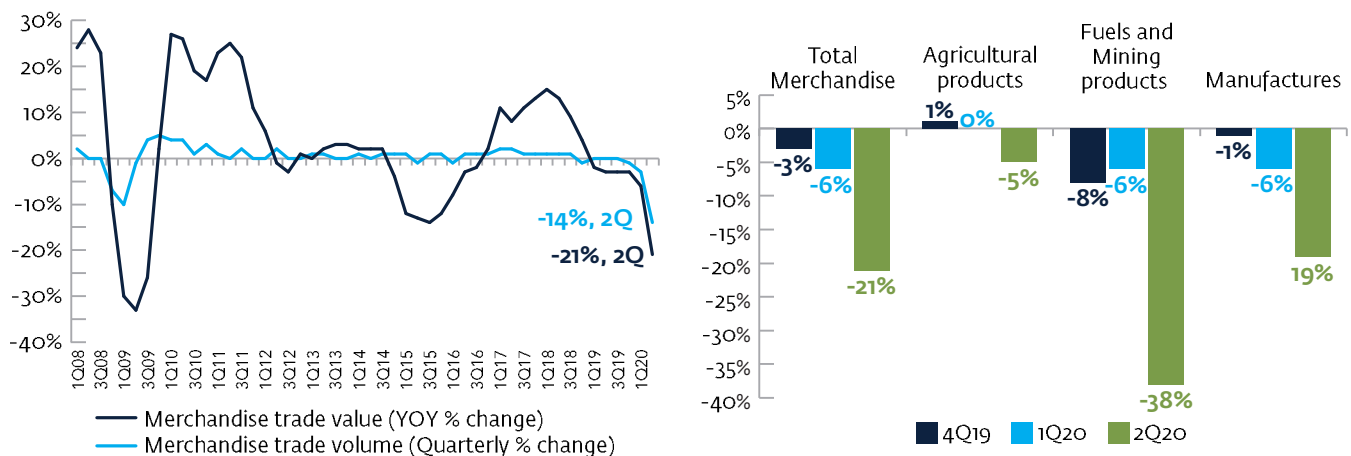


FIGURE 8.3 World Merchandise Trade Trends (from 1Q08 to 2Q20)

Source: The World Trade Organization data portal.

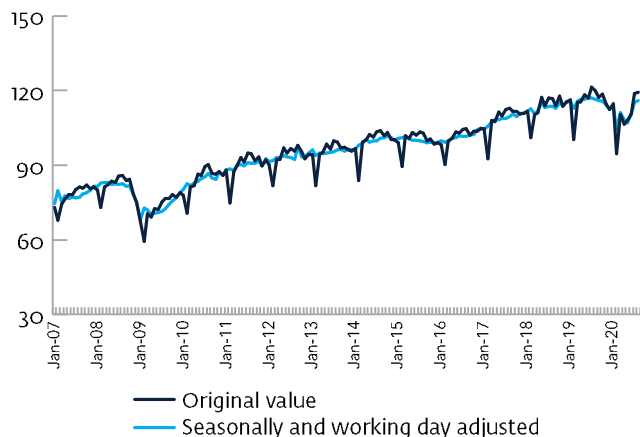


FIGURE 8.4 Freight Indicators and Global PMI Data Reported Exceptional Decreases: Container Throughput Index (RWI)

Note: RWI: Rheinisch-Westfälisches Institut für Wirtschaftsforschung; Global PMI: Global Purchasing Manager Index (PMI) for manufacturing.

exports fell 18 percent in April while imports decreased by 19 percent. In addition, South-South trade has decreased by 14 percent during the same period.²⁸⁷ A few examples of specific effects, drawn from daily news articles, demonstrate how the deceleration of trade has affected a wide range of sectors. Additional data from UNCTAD show that developing countries' merchandise exports fell by 11 percent YOY in 2Q20 while imports fell by 13 percent in the same period.²⁸⁸ The examples below, taken from the news just following 2Q, have several commonalities: damage to important export sectors to that country; COVID-19-related challenges and measures both domestically and in cross-border export markets; drastic trade reductions in both the industry discussed and the country overall; likely drastic economic effects.

- **Kenya—Flowers:** In 2018, trade accounted for 36 percent of Kenya's GDP, with agricultural products making up its top five exports. Kenya is the largest supplier of flowers to Europe.²⁸⁹ With a low number of COVID-19 cases²⁹⁰ during the first quarter,²⁹¹ Kenya adopted "required closings" through August to prevent the virus's spread. Thus, while Kenya's production capacity fell, Europe and other significant export destinations adopted restrictive measures (e.g., "closures" and "internal movements restrictions"). This, along

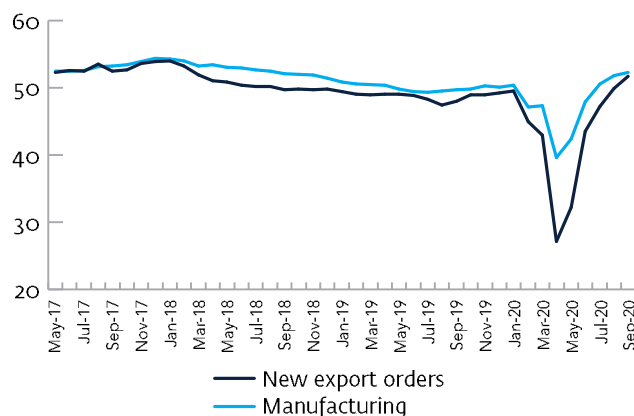


FIGURE 8.5 Freight Indicators and Global PMI Data Reported Exceptional Decreases: Global PMI and New Export Orders from May 2017 to May 2020

with other COVID-related effects (such as rising unemployment), reduced demand for Kenya's exports, including flowers. In addition, COVID-19-related border closures, implemented in late March, have compressed air freight capacity from Kenya. Collectively, these measures reduced the country's flower exports to the EU by 50 percent in March.^{292,293} This sudden and material decline in flower exports negatively affects the country's economy, which relies on this industry for approximately \$5 billion to \$8 billion in foreign income, 150,000 year-round jobs, and an estimated two million jobs indirectly, in addition to seasonal jobs.²⁹⁴ Data show that Kenya's exports fell 12 percent YOY in April, and increased by 2 percent in May before falling another 6 percent in June, while imports fell 20 percent YOY in April, 30 percent in May, and 19 percent in June.²⁹⁵ Exports recovered in August, increasing by 9 percent, while imports continued falling, by 5 percent.²⁹⁶

- **Nigeria—Cocoa:** In 2018, trade represented 33 percent of Nigeria's GDP.²⁹⁷ Of that, cocoa registered among the five highest export products group (after various oil products). While COVID-19 cases were still relatively low²⁹⁸ during the first quarter,²⁹⁹ Nigeria adopted measures to prevent the pandemic's spread. As a result, Nigerian cocoa

exports stalled in the face of COVID-19 safety protocols.³⁰⁰ In addition to export destination lockdowns, reduced port activities delayed cocoa exports, leaving at least 30,000 tons stranded at the Lagos port and in warehouses.³⁰¹ The cocoa industry faces additional stress in Nigeria as cocoa farmers have been unable to access pesticides due to COVID-19-related import and distribution challenges. This, in turn, reduces cocoa supplies, cocoa exports, and cocoa income even further than the port-related reductions.³⁰² Nigeria's cocoa challenges generate a potentially catastrophic national export income loss when partnered with the fall in crude oil prices (Nigeria's top export).³⁰³ At a national level and for aggregated trade figures, the Nigerian National Bureau of Statistics has reported a total trade decline of 18 percent in 1Q20 vs. 4Q19. Total export value decreased 14 percent in 1Q20 vs. 4Q19; import values decreased by 21 percent in 1Q20 vs. 4Q19.³⁰⁴ Trade continued its decrease during the second quarter, falling by 27 percent compared to the first quarter.³⁰⁵

- Uganda—Several exports fell:** In 2018, trade accounted for 48 percent of Uganda's GDP, which includes gold, oil, and several agricultural crops. While reported first quarter COVID-19 cases were low,^{306,307} the country focused on blocking the spread of the virus via required closings for some sectors and required stay-at-home orders and internal movement restrictions, launching each in March or April. While these measures have contributed to enhanced safety, they have also reduced production. In addition, Uganda's major trading partners (including China) required significantly less production inputs due to COVID-19-related stoppages, and thus Uganda experienced a loss of export market demand. Uganda's exports and imports have been affected by the pandemic. Imports dropped by 10 percent in March, according to the central bank, driven mainly by a decrease in private sector imports. Export receipts declined by 11 percent in March, with details on specific export declines available from February: gold exports fell by 46 percent, cotton exports by 43 percent, flowers by 40 percent, and maize by 10 percent.³⁰⁸ Later in July, trade recovered, with the value of export

receipts increasing by 30 percent YOY and imports by 10 percent, as the economy reopened.³⁰⁹

- India—Gold:** India is the world's 18th largest exporter. It is an important player in global value chains and a significant contributor to South-South trade. In 2018, trade accounted for 43 percent of the country's GDP, highlighting its contribution to Indian economic growth.³¹⁰ India reported 1,251 COVID-19 cases during the first quarter with 32 deaths, and the count has significantly increased since, exceeding 6.8 million cases and 106,000 deaths by early October.³¹¹ In response to a staggering case count, authorities have adopted measures such as required closings, internal movement restrictions, and stay-at-home orders. India is the world's fourth largest importer of gold.³¹² Due to a reduction in shipment capacity, increased prices, and closures of jewelry shops in India, gold imports plummeted by over 99 percent in April. By June 2020, the drop in gold imports continued, with a slump of 86 percent YOY.^{313,314,315} Moreover, the country's top trade partners (including China and the United States) have reported high infection rates and have implemented closures in many sectors, reducing demand for Indian products, particularly in the retail sector. Trade figures from the country's Ministry of Commerce and Industry show that goods exports for April dropped 60 percent YOY, while imports contracted by 59 percent.³¹⁶ The downward trend continued until August. Exports fell by 13 percent YOY while imports fell by 26 percent in August.³¹⁷
- Bangladesh—Textiles:** Bangladesh is the world's second largest readymade garment (RMG) exporter. More than 80 percent of the country's exports come from the RMG sector, and the textile and apparel sector contributes around 20 percent of Bangladesh's GDP. The country's GDP growth is projected to fall by 8 percent in 2020, a significant decline.³¹⁸ As clothing orders from Western brands and retailers continue to decrease in the wake of the coronavirus crisis, the Bangladesh garment industry could see an "irrecoverable loss" of \$5 billion by the end of the fiscal year.³¹⁹ Bangladesh's top export partners have been affected by the pandemic; "more than \$3 billion worth of orders in Bangladesh's

garment sector has been withdrawn,” affecting the country’s exports. Cotton, the primary input for RMG, has seen drastic supply reductions as top cotton producers (including India, China, the United States, Pakistan, and Brazil) experience extended lockdowns.³²⁰ Bangladesh also implemented measures to prevent the exponential growth of COVID-19 cases³²¹ experienced by other countries, significantly reducing production.³²² The weakened textile industry, which constitutes a significant share of Bangladesh’s exports, precipitated the country’s exports contraction. In May 2020, exports were 64 percent lower than national targets for the month. And month-on-month comparisons for May exports show a decrease of 62 percent between 2019 and 2020.³²³ Exports continued to decrease until June (3 percent decrease YOY) with a slight recovery in July (0.6 percent YOY increase) that continued in August (4 percent YOY increase) and September (4 percent YOY increase).³²⁴

The global pandemic has decelerated trade drastically. Both the drivers of this slowdown and responses to the challenges at hand suggest changes that will endure through this crisis’s ultimate recovery and additional challenges beyond the pandemic. The outlook for trade and what will follow the impacts described above requires an understanding of both short- and long-term components of trade fluctuations, as well as an eye toward potential paradigm shifts that were, albeit gradually, already underway prior to the COVID-19 crisis.

Outlook: The Future of Trade

Trade remains essential to the global economy. It has been fundamental to growth, development, and (in most scenarios) stability for both developed and EMDE countries for some time. Today the world is more connected than ever; unwinding the interconnectedness of nations and economies is infeasible and would have severe consequences. Trade will be a critical component of economic recovery as it both leads and lags growth. However, the future of trade is highly likely to change going forward, given the experiences of the current pandemic. We expect that trade will evolve in several ways, both in the short term and the medium-to-long term, as noted below:

- **In the short term, trade will continue to fall.** Trade is directly tied to aggregate demand, production, and trade finance availability—all of which are either drastically stalled or are under significant downward pressure. Unless demand bounces back immediately, accompanied by systemically significant trade finance increases, the contraction in trade will continue. However, the global financial sector has some agency over the depth of the fall in trade. Several econometric studies, some cited here, provide proof that the trade collapse of 2008–09 was materially and independently affected by shortages in trade finance, with some publications indicating that up to 20 percent of the reduction could be related to trade finance,^{325,326,327} as discussed in this note’s companion, “COVID-19: Why Trade Finance Matters, Especially Now.” Thus, it remains in the best interests of both economies and financial sectors over the long term to support the maintenance of trade finance and working capital. The extent to which financial sector engagement is sustained will impact the “bottom” of trade, as well as the speed to which it (and the economies that depend on it) recover.
- **Trade will help expedite recovery for some countries.** Steady-state economic recovery, brought about by a return of production, consumption, and trade, is unlikely until COVID-19 is contained. Economists continue to debate the shape of the future recovery (V-shaped, U-shaped,³²⁸ or W-shaped)³²⁹ and some predictions have suggested the recovery could begin by 2021, while others remain wary of predicting a short-term recovery. While beyond the scope of this paper, the speed of the “bounce,” which can be expedited with trade, remains to be seen and depends on the proximity of vaccine development and distribution, as well as the potential for additional infection waves. However, we expect that those countries that proactively pull forward bilateral and global connections through trade will experience faster recoveries, along with their trade counterparties. The extent to which trade tensions are amplified post-crisis will play a significant role as well.

- China's economic recovery, now in preliminary stages, will provide both a test case and impetus toward a global trade recovery.** The world's largest manufacturing economy and the leader of emerging market participation in global value chains, China was also the first country to face exponential growth of COVID-19 cases and deaths.³³⁰ As such, it was the first to implement lockdowns (including restricted internal movements in late January) and sustain a severe fall in exports (22 percent in January). However, a fragile recovery began to unexpectedly emerge. While economists had forecasted that Chinese exports would decline by 14 percent YOY (imports by 10 percent) in March, exports declined only 7 percent (imports 1 percent).³³¹ Then, exports experienced a 3 percent increase in April, suggesting early but fragile recovery³³² as exporters worked to overcome first-quarter shortfalls.³³³ This trend continued until July with exports increasing by 7 percent YOY (while imports fell by 1 percent).³³⁴ This increase suggests significant potential for recovery, though other economic data, such as still-meager retail sales growth, suggests that challenges remain.³³⁵ Despite China's April trade rebound, because its key trading partners have fallen into recession, this nascent recovery is likely to remain under pressure.³³⁶ The capacity of China to contribute to a global recovery depends on its ability to contain the virus and protect production. As it is among the first economies to attempt a production restart, China's experience going forward will inform the rest of the world as to both opportunities and risks of specific choices. And given the increased interconnectedness of the world, China cannot reboot global trade by itself. This factor is most likely to increase in significance as more countries are able to contain the spread of the virus and move toward economic recovery.
- Increasing inventory across supply chains may support temporary trade growth, post recovery.** In recent decades, much of corporate operational strategy has focused on cutting costs and increasing efficiencies.³³⁷ This, along with

other factors, has led to a reduction of both input and output inventory in companies across most countries.^{338,339} The short supply of inputs reduced the sales cycle cushion and, thus, crisis response times, exacerbating the financial damage of COVID-19. As such, it is likely that, as companies across the world assess risk points, operational risk management strategies may shift in order to add time to respond to exogenous factors. Some companies may choose to add an extra layer of inventory, temporarily increasing the demand for related goods, relative to pre-COVID-19 levels.

- As the world recovers, the global structure of trade corridors may change.** The rise of global value chains over the past decade has supported trade growth and, through trade, economic growth, particularly in emerging markets.³⁴⁰ However, given the acute shocks from the COVID-19 crisis, with contagion accelerated by a reliance on a concentrated hub-and-spoke global trade network, a larger number of smaller hubs may emerge, increasing each country's trade counterparty diversification. Some countries will seek to diversify their supply chain memberships.³⁴¹ This offers a unique opportunity for high-potential countries to increase their leadership roles in smaller trade hubs by taking early steps to strengthen connections with their neighbors, and by accelerating their emergence from the crisis via stronger trade and trade finance infrastructure. This could permanently alter the map of global trade.
- For Africa, intra-African trade can potentially contribute to recovery.** Trade in Africa was, relative to other regions and across multiple metrics, the lowest by far. Prior to the pandemic, African countries were making efforts to boost intra-regional trade, one of many factors that could support economic growth. The African Continental Free Trade Area (AfCFTA)³⁴² could advance pan-African trade hubs in an era when several countries seek to diversify their supply chains. The extent to which this effort can be advanced depends on several factors, including each country's pandemic-related damage, intervention options, and recovery strategies.³⁴³

- **Innovative changes may be challenging for developing countries, requiring the participation of all stakeholders.** The trade digital landscape offers great promise, but is quite complex, as there is a wide range of providers operating within different geographies and places on the tech value chain, with a broad mix of products, client focus, and underlying technologies.³⁴⁴ As with developed economies, there is significant potential for innovation in EMDE trade and trade finance. The extent to which this potential is realized in EMDEs depends on the extent to which multiple partners are willing to invest funds and time to upskill, outfit, coordinate, and further develop EMDE financial institutions, regulatory systems, and customers. While the set of stakeholders involved is wide-ranging, such partners would include, among others, private sector financial institutions, other cross-border investors, international institutions and advisory groups, individual governments, donors, global private sector players, and public participants such as regulatory agencies.

Conclusion

This is the first in a series of briefing notes that examine the COVID-19 crisis from a trade and trade finance perspective. In order to convey the extent of the pandemic's impact on trade across the globe, the note drew from 70 Daily News Summaries on COVID-19 and trade, collecting published economic and trade news from multiple sources as well as data made available between March 24, 2020 and August 1, 2020, much of which has been updated with the most recently available figures.

Trade has been a significant victim of the pandemic. Yet trade will also be critical to global and national economic recoveries, and trade networks can play a significant role in mitigating the impact of necessary COVID-19 containment efforts, while expediting a return to economic growth. Successive notes of the “Trade and COVID-19 Trilogy” will expand the discussion on both trade finance and the consequences of trade contraction, respectively. ■

CHAPTER 9

How the Tourism Sector in Emerging Markets is Recovering from COVID-19

By Nisachol Mekharat and Nouhoum Traore

Tourism is an important sector that accounts for 10 percent of global gross domestic product and one in every 10 jobs. As a result of COVID-19-related travel restrictions, the United Nations World Tourism Organization (UNWTO) has estimated that international tourist arrivals in 2020 will drop between 58 and 78 percent, which puts 100 to 120 million direct tourism jobs at risk. The effects of COVID-19 are felt throughout the extensive tourism value chain, including airlines, hotels, restaurants, tour operators, food suppliers, farmers, retailers, and a wide range of other small and medium enterprises.

Although all tourist destinations strongly feel the impact from the pandemic-related crisis, not all have the same vulnerabilities or capacity to recover. This chapter explores the factors in specific tourism destinations that contribute to pandemic-related vulnerability, as well as the factors that support the resilience of the tourism sector. Examining all these factors together provides a snapshot of the countries as well as the subsectors that are most likely to recover first, as well as those that will require greater support to weather and recover from the crisis.

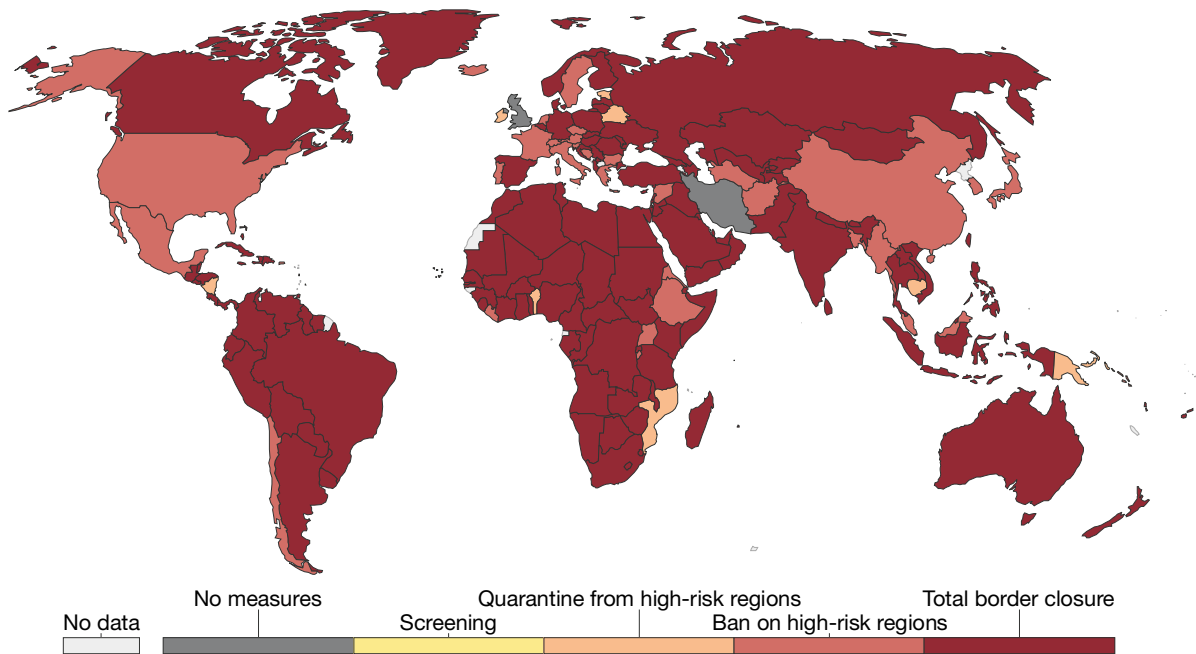


FIGURE 9.1 International Travel Controls During the COVID-19 Pandemic as of May 1, 2020

Source: Hale, Thomas, Noam Angrist, Emily Cameron-Blake, Laura Hallas, Beatriz Kira, Saptarshi Majumdar, Anna Petherick, Toby Phillips, Helen Tatlow, Samuel Webster. 2020. Oxford COVID-19 Government Response Tracker.

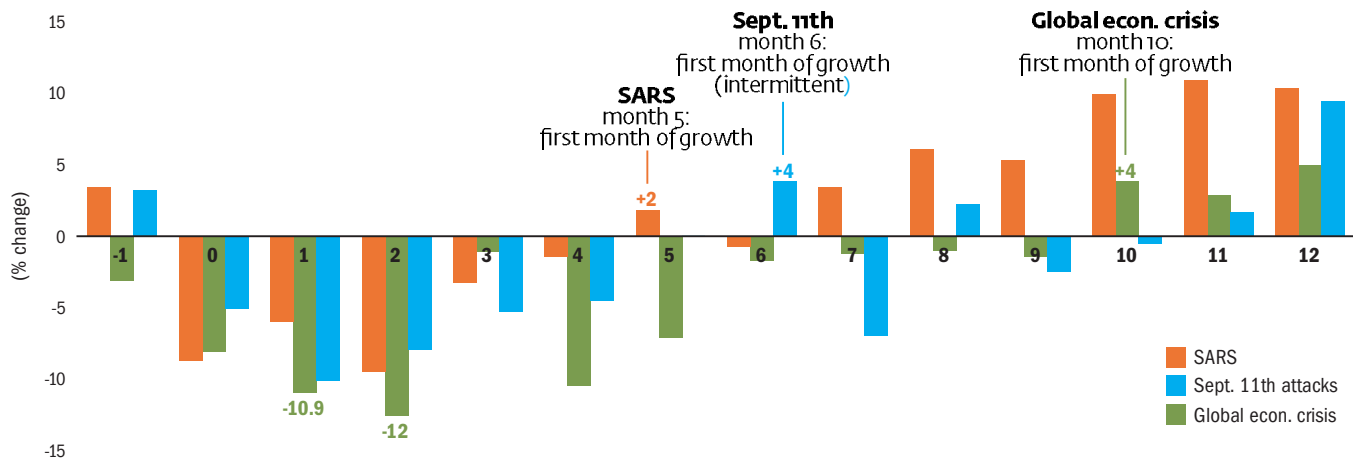


FIGURE 9.2 The Impact of Three Crises on World Tourism Arrivals

Source: UNWTO (United Nations World Tourism Organization). 2020. “International tourist arrivals, 2000–2019 and scenarios for 2020 (% change)”, *Impact Assessment of the COVID-19 Outbreak on International Tourism; Executive Summary*. <https://www.unwto.org/impact-assessment-of-the-covid-19-outbreak-on-international-tourism>

Note: Month 0 for the Sept 11th crisis=Sept. 2001; for SARS pandemic=March 2003; and for the Global Economic Crisis=Jan 2009. Of all the crisis, global arrivals returned to growth the fastest after SARS (5 months).

World travel came to a standstill in April 2020 as COVID-19 reached almost every country, and governments started to restrict movement in order to curb infections. By May 1, 2020, all countries, except Iran and United Kingdom (UK), imposed some pandemic-related travel restrictions, with most closing their borders completely.³⁴⁵ Economically, travel and tourism became the sector most affected by the pandemic.

The tourism sector has experienced, and recovered from, demand-driven crises in the past such as the September 11th terrorist attack (2001), the SARS pandemic (2003), and the West African Ebola outbreak (2014–2016). The sector has also endured demand and supply crises such as the Asian Economic Crisis (1997–1998) and the Global Economic Crisis (2008).

However, the impact of the COVID-19 pandemic on the tourism sector is of a different order of magnitude. The economic contraction has been, and will continue to be more profound than any prior recession since World War II. Furthermore, the tourism crises since 2000 were somewhat contained, regionally, whereas COVID-19 has simultaneously affected the entire world.

Vulnerability to the COVID-19 Pandemic

Dependency on international tourism

The first factor of vulnerability is the importance of tourism for the local economy. As can be expected, the countries that are most dependent on tourism will be most severely impacted as lower demand has spillover effects across their economies. Countries in which tourism contributes the largest share directly to GDP³⁴⁶—Croatia, Fiji, Panama, Jamaica, Mauritius, and Jordan—are among the most affected by the decline in activity and the ensuing multiplier effects. In the short term, these impacts include job losses and a reduction or total elimination of income due to the inability of tourism operations to sustain themselves and support their workers. For those countries where official safety nets are limited or nonexistent, the impact will be acute and could be unmitigated.

A study on the role of tourism in the economy of the island of Bali in Indonesia illustrates the multiplier effect, which is how many times money spent by a tourist circulates through a country’s economy. This study noted that every Indonesian rupiah 1 trillion (~\$68 million) of tourists’ expenditures in Bali creates 27,750 job opportunities in tourism, and 67,566 jobs in the island’s economy as a whole.³⁴⁷ The World Travel

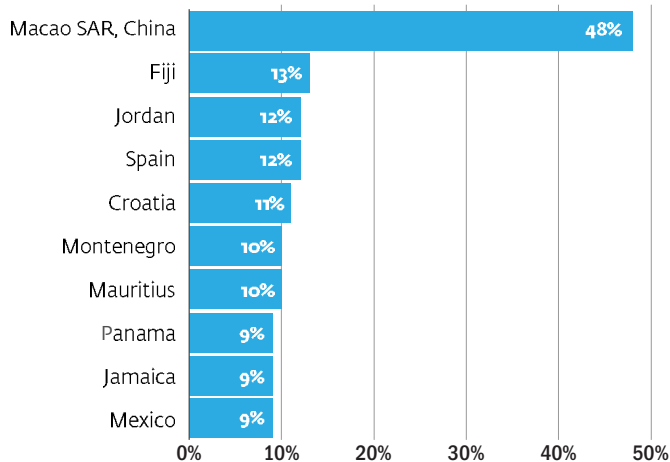


FIGURE 9.3A Tourism (Direct) as a Share of GDP (%)

Source: UNWTO (United Nations World Tourism Organization). <https://www.unwto.org/unwto-tourism-dashboard>

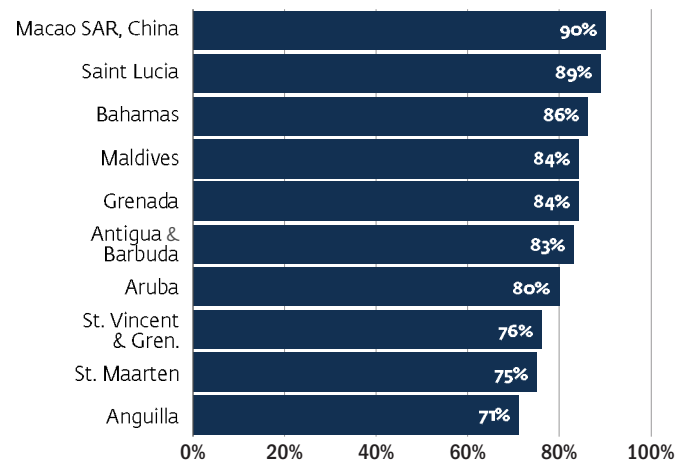


FIGURE 9.3B Tourism's Share of Total Exports (%)

and Tourism Council (WTTC) has projected that global travel and tourism job losses in 2020 will be between 98 million (upside), 121 million (baseline), and 198 million (downside). With regard to GDP, the losses have been estimated at between \$2.7 billion (upside), \$3.4 billion (baseline), and \$5.5 billion (downside).³⁴⁸

The impact of COVID-19 will also be amplified by a country's dependency on international (as opposed to domestic) tourism. When factoring in indicators such as tourism as a share of total exports, the list of the most vulnerable economies includes most small islands such as those in the Caribbean and the Maldives. Globally, international travel relies heavily on departures from China, including Hong Kong SAR, China, followed by Germany, the United States and the United Kingdom. Destinations that rely on tourists from these countries will be affected by the speed at which these source nations recover, as well as the changes in their customers' behavior.

For example, Chinese tourists are now more likely to travel within China, or in the region, which could contribute to increased arrivals in Asian destinations, but fewer in Europe and the United States. The recovery of tourism in the Caribbean islands, which are heavily dependent on tourists from North America, will depend on the pace at which the situation normalizes in the United States and Canada. However, while domestic tourism can help kick-start the recovery, it cannot fill the gap left by international travelers.

Location, Access, and Travel Costs

Location, ease of access, and travel costs are essential factors considered by tourists when they select a destination. Some location-related constraints such as difficulty of access and transportation costs, have a negative impact on demand. The destination selection process during and after the COVID-19 pandemic will be affected by variables such as access by air, and air travel safety. Not only will tourists be unable to reach island destinations until air travel bans have been lifted, fares could be prohibitively expensive until airline operations return to pre-COVID-19 levels, which may take several years. The long-term strategic and commercial decisions of major airlines are beyond the control of local authorities and actors in the tourism sector. However, once the pandemic is over, governments must decide whether to support their local airlines to ensure that these survive in the competitive air travel sector.

In addition, without a vaccine or proven treatment, tourists will be wary of extended air travel that requires points of close contact in airports and on planes. Post-COVID-19, remote and exotic destinations that were once attractive because of their seclusion, will suffer due to lack of access. In the short-to-medium term, tourists are more likely to travel domestically or, at most, intra-regionally, rather than travel between continents, as they did before the pandemic.

Infrastructure

Local Transport: Inadequate domestic transportation infrastructure will be an impediment to the recovery of local tourism. While air travel increases health risks and could deter decisions to travel, ground transportation has become the next best alternative. European countries benefit from increased travel due to their well-connected and highly effective train systems. Countries that have congested or otherwise unsafe roads, as well as countries with limited choices of ground transportation, will miss opportunities when demand reorients to domestic or regional destinations that are accessible by car and train. Thus, investments now in quality road and other ground transportation infrastructure will contribute to the sustainability of tourism destinations in the long run.

Healthcare Infrastructure and Cost: In some destination countries, the high number of COVID-19 infections is severely straining the national healthcare system, and that plus a dramatic death toll could adversely affect travelers' perceptions and preferences for years to come. Low-income and International

Development Association (IDA) countries could face a lasting decline in international arrivals if travelers lack confidence in local healthcare. Although countries such as the United States, and those in Europe have quality healthcare, tourists could be discouraged not only by their fear of infection, but also by the high cost and challenges in accessing treatment. Conversely, in middle-income countries, with good quality healthcare that is easy to access and reasonably priced, tourist numbers could rise during the first phase of recovery.

IT Infrastructure: A reliable digital network and digital facilities will increase travelers' confidence in a destination, if only by enabling them to request immediate assistance, if needed. Travelers also need to be able to access high-quality digital information that is relevant, easy to understand, unambiguous, and accurate. In addition, digital platforms and information technology can be leveraged to facilitate the immigration process, and minimize touch points in order to achieve near-contactless arrivals and departures at airports, ports, and borders, as well as in accommodation.

East & Southeast Asia	No. of Cases	No. of Deaths
Indonesia	549,508	17,199
Philippines	434,357	8,436
Japan	152,827	2,213
China	93,797	4,751
Myanmar	92,189	1,972
Malaysia	68,020	365
Singapore	58,230	29
South Korea	35,703	529
Thailand	4,026	60
Vietnam	1,358	35
Mongolia	812	-
Cambodia	331	-
Lao PDR	39	-
Timor-Leste	31	-
Total	1,491,228	35,589

Latin America and the Caribbean	No. of Cases	No. of Deaths
Brazil	6,383,787	173,817
Argentina	1,432,570	38,928
Colombia	1,324,792	36,934
Mexico	1,122,362	106,765
Peru	965,228	36,031
Chile	553,898	15,438
Ecuador	194,876	13,562
Panama	167,311	3,098
Dominican Rep.	145,197	2,334
Bolivia	144,810	8,963
Costa Rica	140,172	1,731
Guatemala	123,460	4,191
Honduras	108,641	2,927
Venezuela	102,621	901
Total	12,909,725	445,620

TABLE 9.1 Number of COVID-19 Cases and Deaths by Country, Territory, and Area

Source: WHO (World Health Organization), 2020. WHO Coronavirus Disease (COVID-19) Dashboard. <https://covid19.who.int/table?tableChartType=heat>

Government's management of COVID-19 cases

Even without knowing how the COVID-19 pandemic will turn out, public sentiments have already formed about which countries are doing better than others. Destinations exposed to prior health crises such as China, the Republic of Korea, Hong Kong SAR, China, and Taiwan, China had infectious disease control protocols in place and were able to quickly implement effective measures to control COVID-19 infections and limit loss of life. Governments' performance in managing the crisis will have a long-lasting impact on tourists' perceptions of a destination. In the medium-to-long term, to restore the confidence of tourists who are concerned about their safety, governments must actively manage their country's image and deploy effective marketing strategies that inform potential tourists about the industry's recovery and the systems in place, in order to mitigate everyone's risks.

Gambia was a case in point during the Ebola outbreak. Despite having no reported cases, tourism receipts in Gambia fell by more than half for the 2014/2015 season due to the negative image international tourists formed about the West African region. Given the current high number of COVID-19 cases in some Latin American countries, it is likely that the whole region will face more difficulty in restoring tourists' confidence than will be the case with countries in East and Southeast Asia.

Resilience to the COVID-19 Pandemic

Ability to create domestic/regional demand for tourism

Each tourist destination has a different capacity to cope with the crisis. The data show that the number of tourist arrivals in Hong Kong SAR, China, after dropping to 10 million in 2003 due to the SARS outbreak, came back and even jumped to 14 million in 2004. A similar pattern was apparent in Thailand after SARS, where the number of tourist arrivals surpassed the pre-crisis level in 2004. Conversely, it took six years for the Bahamas to regain the number of tourist arrivals it had enjoyed prior to the 2009 Global Economic Crisis, and in Sierra Leone, five years after the 2014 Ebola outbreak, the number of tourist arrivals still had not returned to the 2013 level of 81,000.

An essential factor accounting for the speed of tourism industry recovery seems to be the ability of the country to capture domestic and regional demand. Thailand's tourism industry has shown resilience after past crises due to its large domestic clientele (with almost nine million departures recorded in 2017), and a location that attracts tourists from China, Korea, and Japan. Thus, geographical connectedness impacts regional demand and can play an important role in the recovery of the tourism sector. Destinations such as Hong Kong SAR, China and Singapore are well-connected to other countries in Asia, many of which are middle-income countries with a robust appetite for travel. As a result of its connectedness, tourism in Hong Kong SAR, China rebounded almost immediately after the SARS outbreak. In contrast, the Bahamas' high dependence on U.S. tourists explains its slow recovery from the 2009 financial crisis. For the countries affected by Ebola in 2013 (Guinea, Liberia, and Sierra Leone), where most tourists are international travelers, the total number of arrivals still had not recovered by 2018.

Private sector capacities: Strength of hotel operators and the supply chain

The experience and level of leverage that private hotel operators and developers can offer will play an important role in tourism destinations' recovery. Small, medium-sized, and large tourism operators all face the same challenges, and it is generally forecast that full tourism sector recovery will take at least a few years after the April 2020 COVID-19 shutdown. Resilience will be severely tested over this period and, for several reasons, large international operators are considered to be in a better position to adapt to, and survive the pandemic.

First, hotels that were not highly leveraged at the onset of the pandemic are more likely to have access to the finance needed to weather the crisis. Hotel chains with substantial physical assets, brand value, and, in some cases, diversification in other lines of business, will have a comparative advantage in recovering. Furloughing and laying off hundreds of thousands of employees is only a partial answer to the drop in demand, and could hurt businesses over the long term due to insufficient maintenance, loss of human capital, and loss of engagement with clients.

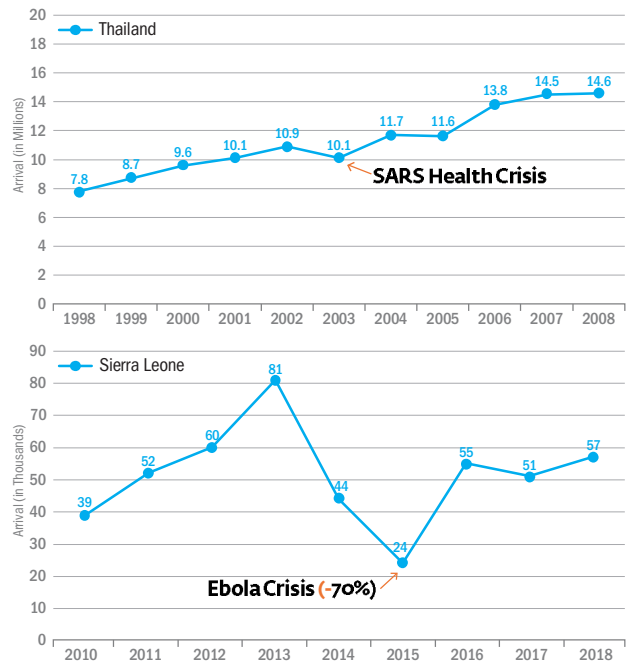
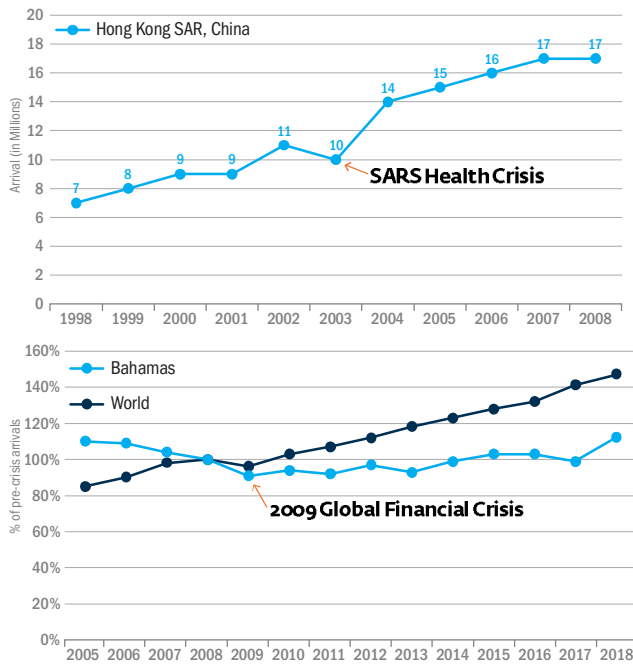


FIGURE 9.4 Recoveries Following SARS, Ebola, and the Global Financial Crisis

Source: Authors own graphs using 2020 United Nations World Tourism Organization statistics. <https://www.unwto.org/unwto-tourism-dashboard>

Access to liquidity will be essential to maintaining hotel facilities and sustaining their operations throughout the downturn, as well as to financing improvements to facilities and adjustments to new health requirements, training staff, and offering extra services to cater to travelers' changing needs and preferences. Small, privately owned hotels may be more constrained financially when it comes to making these accommodations. The cash necessary to launch marketing campaigns while restarting operations may only be available to the largest operators.

The ability to work with other sectors in the economy and loyalty programs also give large operators advantages, and a higher chance of a successful recovery. For example, large hotel operators can cooperate with healthcare, financial, and transportation businesses to provide seamless services, and thereby create new products that appeal to travelers as travel resumes. Large operators will also be in a position to offer options that better cater to the needs of travelers. For example, a luxury hotel chain in Thailand (Anantara) has joined the country's Alternative State Quarantine accommodation program, and is offering a package for the mandatory 14-day quarantine in its hotels. This includes the services of an associated private hospital that is providing

COVID-19 tests, consultation, and healthcare. These services could remain after the COVID-19 era. A large international hotel chain is considering offering COVID-19 health insurance if reservations are made directly with the hotel, rather than through a booking website. Smaller independent hotel operators may not be able to offer such services because they have already lost a great deal of money, and lack the funds to cover restarting costs, including hygiene-related improvements and staff training. This might lead to a shift in the market, whereby independent hotels engage with global operators either through a franchise or the chain's management, so that they benefit from the marketing ability of a well-known brand.

When the health crisis is finally under control, supply chain resilience will be one of the key factors for speedy recovery of the tourism sector. The border restrictions and lockdown measures taken by governments to control the spread of the virus have disrupted international trade and global supply chains, which could take some time to return to pre-COVID-19 levels. In the case of the tourism sector, reliance on imports could increase operational costs and may cause delays that result in a loss of competitiveness. By contrast, countries with vertically integrated supply

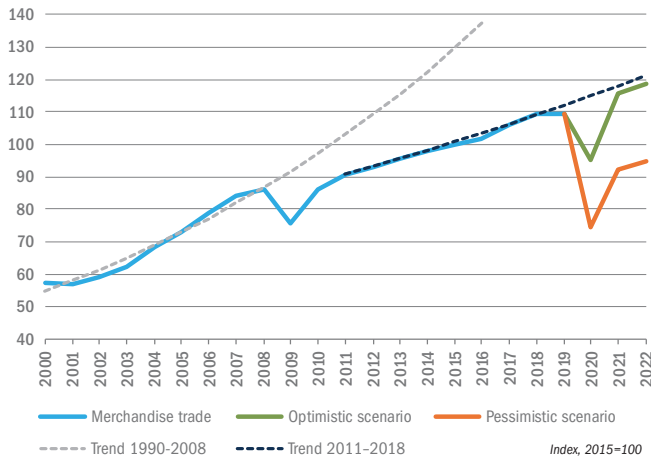


FIGURE 9.5 World Merchandise Trade Volume, 2000–2022

Source: WTO (World Trade Organization) Secretariat. 2018. https://www.wto.org/english/news_e/pr855_e.htm

chains, and robust local production capacity, may be better able to control costs and rebound faster.

Government assistance to the tourism sector

Governments’ policies and interventions will be critical for the recovery of the tourism sector. As noted above, images and perceptions play an important role in tourists’ destination choices. Governments can partner with the private sector in funding global marketing campaigns to improve perceptions. For example, Barbados quickly launched a 12-month Welcome Stamp—a new visa that allows remote workers to live and work from the country for up to a year. Conversely, when reopenings are accompanied by confusing messages about durations of individual reopening phases, unclear communications where movement restrictions are supposed to be in place, or a lack of clarity about when COVID-19 tests are required, the effects on the tourism sector can be amplified.

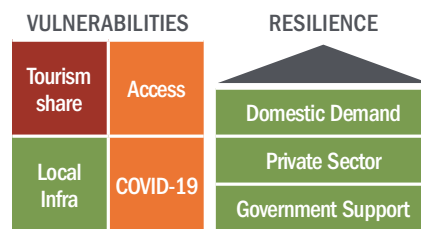
Even with the vaccine, it is anticipated that travelers will continue to be mindful about COVID-19 infections. Finding the right balance between safety and convenience with regard to arrivals and departures is important. Lengthy arrival and departure procedures can increase the risk of infection, as they prolong the time that travelers remain in an enclosed space, and can expose them and their belongings to contamination. Conversely, full social distancing could result in long

lines and even delayed flights. Two-week quarantines on arrival is another issue that can render a holiday out of the question for many people.

Governments need to balance these competing priorities and send clear messages to support the restart of tourism. As noted above, implementing digital technology could facilitate travelers’ entry and departure processes. For example, as international tourism restarts, artificial intelligence could improve contact tracing and help control outbreaks. Additionally, governments that are at the same stage with regard to domestic infections could cooperate with each other to facilitate the resumption of tourism. For instance, European countries outside the Schengen Area quickly resumed travel with those within it. Japan was considering a travel bubble with Australia, China, New Zealand, Korea, Thailand, and Vietnam prior to Japan’s second wave of infections in late July. In sum, clear, flexible, and measured policies can facilitate and accelerate the recovery of the tourism sector.

Views on Regional Recovery

East and Southeast Asia



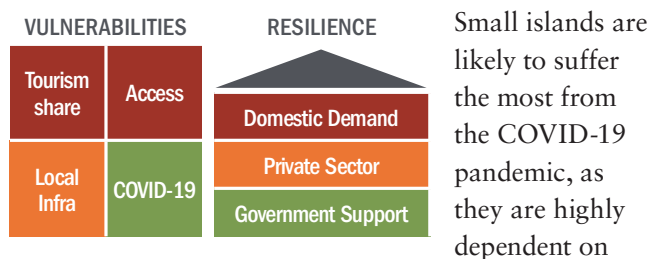
The East and Southeast Asia (ESEA) Region was the first to report COVID-19 cases in late January

2020. Most destinations—China, Japan, Korea, Hong Kong SAR, China, Taiwan, China, Thailand, Vietnam, Cambodia, and Myanmar—managed the first wave of infections well and began to relax controls after only a few new cases were reported. However, a second wave of infections in some countries in late July and early August resulted in another round of movement restrictions and the cancellation of plans for a tourism bubble.

Travel and tourism in the ESEA accounts for a sizable share of destinations’ GDP, which makes them quite vulnerable to the impact of the pandemic. As noted above, some prime destinations are not easily accessed by any means other than air travel. However, with a few exceptions, most countries in ESEA have adequate local infrastructure and healthcare systems. Also, as noted previously, they have benefited from prior experience

with health crises (SARS, Avian Flu, and Middle East Respiratory Syndrome), which has allowed them to respond to COVID-19 in a timely manner. When resilience factors that could contribute to the recovery of the tourism sector are taken into consideration, the ESEA Region is poised to emerge from the crisis once the virus is under control, provided that the region: has the ability to generate strong demand from domestic and intra-regional tourists (led by China); has a strong and experienced private sector, both in terms of hotel operators and well-integrated supply chains; and has governments that have already launched campaigns to support domestic tourism. It is likely that the model that works in Asia could also be used to guide recovery in other regions of the world.

Small Islands—Caribbean and Pacific Islands



Small islands are likely to suffer the most from the COVID-19 pandemic, as they are highly dependent on

international tourism, and access is limited to air travel and cruise ships. Due to their small size and remote locations, most islands also lack good healthcare facilities, and they have to import most of their supplies, both of which can critically affect tourists' choices of destination. Cruise travel, which contributes a large number of tourists to many of these destinations, has been heavily affected by COVID-19 cases. In terms of recovery, tourism on small islands will largely depend on recovery in their source nations (the United States, Canada, and Europe) as they lack domestic demand, and have limited supply chains. Large operators are likely to lead the recovery in these destinations by leveraging their regional and international networks.

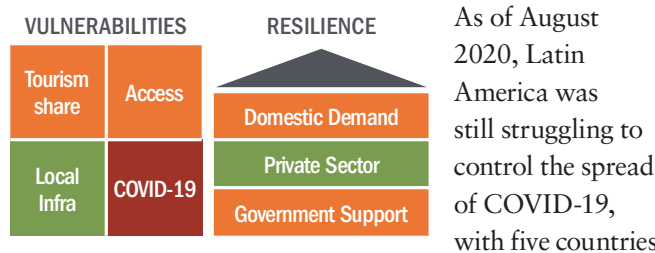
Sub-Saharan Africa



It is still too early to tell how Africa will handle the COVID-19 pandemic, as it was the last

region to be affected by the virus. As of August 2020, South Africa had the fifth highest number of cases in the world, followed by Nigeria (50th), Ghana (52nd), and Ethiopia (56th). For the majority of African countries, tourism is not a major economic sector, but the few countries that do have a significant tourism sector are highly dependent on international arrivals. In terms of location, their destinations are remote, with air travel concentrated in a few international airports. In addition, tourists will be concerned about the lack of quality healthcare facilities and the lack of land transportation that could limit their ability to move between destinations. It is likely that Africa will take longer to recover than other regions, primarily due to the lack of domestic and intra-regional demand, the limited number of large operators, and the sector's weaker supply chain. Tourism may also not be a priority for many African governments, as concerns about other sectors such as healthcare, manufacturing, and agriculture could be more pressing.

Latin America



As of August 2020, Latin America was still struggling to control the spread of COVID-19, with five countries

among the world's top 10 in terms of COVID-19 case numbers. With the United States as the principal source nation for travelers to Latin America, tourism demand will be affected by the U.S. domestic situation. Most Latin American countries, however, do not rely on tourism for exports. For example, tourism's share of total exports is only 2 percent for Brazil, 5 percent for Mexico, and 9 percent for Peru. The countries in Latin America that rely the most on tourism as exports are Panama (28 percent), followed by Uruguay (17 percent), and Colombia (14 percent). In terms of location, the region is well-connected to certain destinations that rely on air travel, and they have good potential for domestic and intra-regional travel that could help, initially, with the recovery of tourism. In popular destinations there are large operators with well-established supply chains that could restart their operations as soon as governments lift travel bans.

However, due to tourism's small share of GDP, many governments may not prioritize tourism in their economic recovery plan.

Views about the Path to Recovery

Countries that have managed to control the spread of COVID-19 such as China, Korea, Thailand, and Vietnam offer a glimpse of what could be a two-stage path to recovery: demand recovery and earnings recovery. Summer travel picked up in major tourist destinations as a result of government campaigns, attractive promotions, and/or improved perceptions. However, demand remains fragile and can quickly reverse as long as there is no permanent solution (such as an effective vaccine). As soon as cases start to rise again, restrictions can be re-imposed. With a reliable vaccination and tourism infrastructure back in full operation, the earnings of tourism operators could still take up to five years to recover due to having to offer deep discount rates; competing with new supply that could come onto the market; and higher operating costs to meet the new health and hygiene standards.

Lessons Learned and Recommendations

International tourism will only fully recover after a vaccine is effectively deployed. Currently, the challenges facing the tourism sector are mainly how to sustain operations and preserve jobs until the crisis abates, and how to bring back as much volume, as soon as possible. Much remains unknown, but based on lessons learned from previous crises, some areas where IFC and the private sector could contribute to the recovery of tourism, are as follows:

- *Approach the recovery with a long-term sectoral view.* IFC can play an effective countercyclical role by providing support to hotels that are well-managed, socially and environmentally responsible, and that were not heavily leveraged prior to the onset of the pandemic.
- *Work with sponsors with large footprints to widen the impacts.* Large hotel chains/operators employ hundreds of thousands of people, and work with tens of thousands of suppliers and small and medium enterprises (SMEs). Supporting their recovery will indirectly contribute to the recovery of the local economy, and will benefit wage earners, entrepreneurs, and farmers.
- *Address the most acute needs.* Help the hotel industry by providing working capital to maintain their properties, preserve their jobs, and sustain demand in the tourism supply chain so that operations can quickly restart when the pandemic abates. Most hotels are short of cash, as they have earned no income during travel bans, and they need additional capital to restart their operations. Such capital could be scarce as commercial banks are experiencing a high level of nonperforming loans.
- *Sequence different types of hotel properties and locations based on their needs.* For example, leisure hotels are likely to be the first to reopen, followed by business hotels. Small island economies that largely depend on international tourism will have greater needs than those in countries where tourism is not the main economic sector.
- *Connect hotel operators to other sectors that could enable the recovery of tourism such as insurance and health facility operators.* For example:
 - Partnering with insurance companies could provide medical insurance for those who book directly with hotels; and/or
 - Partnering with hospitals could offer alternative quarantine facilities, or full-time medical access and testing if staying in a hotel.
- *Provide flexible financing.* Help hotel operators by structuring their terms to allow a longer-than-usual repayment period.
- *Invest in high-value distressed assets.* Despite having significant financial difficulties during the pandemic, hotels that were profitable prior to the crisis are likely to eventually recover, and become sustainable again. ■

GENDER-SPECIFIC RESPONSES



CHAPTER 10

COVID-19 and the Insurance Industry: Why a Gender-Sensitive Response Matters

By Susan Holliday, Prapti Sherchan, and Sarah Ebrahimi

The COVID-19 pandemic has taken the lives of hundreds of thousands of people, disrupted economies, and affected supply chains and business sectors across the world. Insurers have experienced natural catastrophes and viral outbreaks, such as Severe Acute Respiratory Syndrome and Middle East Respiratory Syndrome, before, but the global nature and scale of the COVID-19 crisis is especially challenging for insurers. Although the industry is likely to survive the crisis³⁴⁹ as it has others in the past, insurers need to determine how best to meet the needs of their customers, agents, and staff with products, financing, sales, and service that are suited to the unprecedented scale of the pandemic.

According to IFC's 2015 *SheforShield* report,³⁵⁰ due to women's improving socioeconomic status, by 2030, they will represent a \$1.7 trillion opportunity for the insurance industry, and 50 percent of this growth will be in emerging economies. According to Swiss Re, global insurance premium growth is driven by emerging markets as a result of innovations in insurance, and the narrowing of the insurance protection gap.³⁵¹ However, despite this positive outlook for industry growth in emerging markets, as IFC has reported, most insurers fail to see women as a key consumer segment.

The global response to the pandemic has highlighted new approaches that insurers should consider, including customer-centric digital tools and other innovations that respond to stakeholders' needs. It has also become increasingly clear that insurers need to tailor their products and processes to the differing risks and needs of men and women and commit to mitigating the extent to which this pandemic widens the gender gap.

This guidance note has been prepared to highlight insurance industry best practices on how to engage with and support women clients and agents. In addition, it explains how women can contribute to

the success of the insurance industry, and how best to engage with them during the crisis. While many of the points covered in this note apply to both genders, this note focuses on meeting the needs of women.

Insurers' responses to COVID-19 have the potential to either increase or reduce public confidence in the industry. Due to the key roles that women play in their households and communities, if insurers adopt a gender-sensitive approach, they can positively influence women's perceptions of the industry, and increase women's understanding and willingness to buy insurance products that improve the resilience of their families and their businesses.

Impact of COVID-19 on Gender Gap

Even before the COVID-19 crisis began, women in emerging markets were more likely to be financially excluded. For example, women are 9 percent less likely than men to have a bank account and, in absolute terms, 56 percent of all unbanked adults across the world are women.³⁵² Research on the economic consequences of COVID-19 suggests that this pandemic is likely to widen the gender gap.³⁵³ Boxes 10.1 and 10.2 list the ways that COVID-19 could impact women's risk profiles, and therefore

exacerbate their protection gap and need for insurance. As women are key insurance industry stakeholders due to their roles as employees, agents, and, increasingly, as customers, insurers need to be conscious of women's multiple roles as breadwinners, business owners, caregivers, and household decision makers.

Thus, as insurers adopt relief, recovery, and resilience measures, they should consider applying a gender lens to their operational processes, including how they manage, market, communicate, sell, and use information technology, and how they support their

women employees, agents, and customers. This means implementing solutions in a way that does not perpetuate the gender gap.

This guidance note covers four key areas where a gender lens can be applied to improve customer centricity during and after the COVID-19 crisis:

- 1. Insurance Operations**
- 2. Branding and Engagement**
- 3. Product Innovation**
- 4. New Distribution Channels**

BOX 10.1 COVID-19's Impact on Women's Risk Profiles

- Women comprise the majority of health and social sector workers and, as a result, they have higher exposure to COVID-19. (WHO)
- Women are more likely than men to work in low-paying, insecure, and informal jobs, where health insurance is nonexistent or inadequate, and income is not secure.
- The sectors that have been most affected—travel and food services—have a predominantly female workforce, and this means that more women than men are losing their livelihoods. (National Bureau of Economic Research (NBER))
- While most people can choose to avoid hospitals and doctors' offices for routine visits or engage over the phone, due to the face-to-face requirements of prenatal appointments, pregnant women face greater exposure to the virus. (Kaiser Family Foundation (KFF))
- Due to the shift in resources toward addressing the COVID-19 emergency, funding for key reproductive and female sexual health services is likely to decline. (WHO)
- As the primary caregivers for children and aging parents, women play a pivotal role in ensuring their families' health and well-being. As women tend to do three times more unpaid care work than men, when women work from home, household responsibilities are likely to conflict with their work. (World Economic Foundation (WEF))
- Across the world, new research shows that since the start of COVID-19, violence against women and girls and domestic violence, in particular, has intensified. (UNWOMEN)
- When emergency costs arise, women tend to rely on their savings and borrowing from family and friends. Therefore, a crisis such as COVID-19 is likely to exhaust women's savings and force them into debt. (IFC)
- When a man dies from COVID-19, which appears to be more likely, his wife and family may be left without an income, with little or no social and healthcare protection. (UNWOMEN)
- In many countries, women do not have the same inheritance rights as men, so if their husband dies from COVID-19 they can lose their assets and be pushed into poverty. (Women, Business and the Law (WBL))
- Women's job losses, the gender pay gap, and women's low levels of financial literacy and confidence in making financial decisions could have profound and long-term consequences for women.

BOX 10.2 COVID-19's Impact on Women-owned Small and Medium Enterprises

- Pre-COVID-19 data indicate that women-owned small and medium enterprises (WSMEs) face a \$1.5 trillion financing gap, which is one-third of the total micro and SME (MSME) financing gap. (SME Finance Forum)
- Pre-COVID-19 research indicates that women who own SMEs often lack access to information and networks and, therefore, may not know where to find financing.
- COVID-19 is likely to have a strong negative impact on WSMEs as they are disproportionately needs-based and informal with limited access to insurance.
- A worldwide survey of nearly 600 SMEs found that about 90 percent of the WSME respondents have experienced a serious drop in their sales due to the pandemic, and 38 percent fear that in the near future they will not be able to pay their employees. (WEConnect International)
- The gender gap in information technology, including women's lack of digital literacy, skills, and equipment is likely to limit WSMEs' ability to leverage technology during and after COVID-19, and therefore threatens the sustainability of WSMEs.

1. Insurance Operations

Focus on business continuity and resiliency. Companies usually have a business continuity plan, but due to the extraordinary consequences of the pandemic, as circumstances change, both during and after the crisis, these plans need to be regularly updated and communicated to employees and agents. The continuity plan must not only take into account the impact that COVID-19 has on the insurer's employees, agents, and customers, it should also consider gender differences. One example of this is the increased care burden on women. IFC's guidance note, *Childcare in the COVID-19 Era*,³⁵⁴ explains how employers can support the childcare needs of their employees, and this note's Additional Resources section lists other relevant World Bank Group and business resources related to COVID-19.

In all sectors, best practice in responding to a crisis is a two-pronged approach, with a dedicated team for each. One team focuses on managing the immediate crisis, and the other looks forward. The team responding to the crisis should reach out to agents and customers, and also set up a remotely operated call center and/or agent helpdesk. The forward-looking group should focus on medium- and long-term resilience, as well as incorporating lessons learned into future operations. Both strategies must take into account the differing needs of women and men.

It is possible, too, and even likely, that after some restrictions have been lifted and people interact more, virus infections will rise again, and stay-at-home orders or lockdowns will be re-imposed. Therefore, continuity planning should account for and prepare for this.

Accelerate digitization without amplifying the gender gap. It is already obvious across the world that COVID-19 is driving digitization much faster than was previously the case. However, when adopting this technology, businesses must do so with a gender lens. Globally, women are 17 percent less likely to use the Internet than men, and this rises to 23 percent in emerging markets.³⁵⁵ Similar gaps apply across technologies: women are about 20 percent less likely to have access to a mobile phone, tablet, or computer.³⁵⁶ Thus, when digitizing their operations, insurers must consider the impact on their women employees, agents, and customers, and strive to increase women's capacity to use digital technology.

In implementing greater digitization, it is more important than ever for businesses to use existing technologies such as the Cloud, rather than develop new applications 'from scratch.' For example, when the strict lockdown began in India, IFC's client, Coverfox, a digital insurance broker, moved its call center to a Cloud-based system, which enables representatives to work from home without a laptop or even Wi-Fi,

using only their mobile phone. By using the Cloud, the company was able to restore over 95 percent of its call center operations in just three days. In many countries, the opportunity to work from home and choose hours that suit family needs is likely to make insurance call center work more attractive to women.

Enable online payment of premiums and claims.

By partnering with financial technology companies (fintechs) or digital banks, insurers can speed up payment of claims and offer benefits such as premium rebates. To ensure a fast, smooth transition to a digital payment platform, where possible, insurers should use an existing system. For example, in Thailand, insurers are now using government-led payment gateways. Some start-ups, such as the Swiss company Imburse, are offering a digital solution that can be used in many countries.³⁵⁷ Although women have been less likely to use digital financial services, digitizing their payments can help boost women's financial inclusion. For example, the World Bank Group's 2017 FINDEX report found that women, and poorer adults generally, may benefit disproportionately when governments digitize the transfer payments they provide to vulnerable groups.³⁵⁸

Digitize to improve data, products, and customer relations. Traditionally, the customer relationship management (CRM) systems of insurers have been less than ideal due to missing contact information, duplicate entries, and other errors. With COVID-19 triggering a push toward digitization, this is a prime opportunity for insurers to improve their customer records by making the adoption of an effective CRM system an organization-wide priority.

A CRM system should be easy for all sales staff and agents to access, including those who are working remotely, and the system should be seamlessly linked to the company's communication channels (calls, texts, video, WhatsApp, and so on).

In addition to investing in a good CRM system to ensure more, and better-quality, customer data, insurers should commit to collecting sex-disaggregated data that can be used to build a better understanding of women's insurance needs. By collecting such data, insurers will gain a greater understanding of women's demographics, their needs and behaviors, and the

socioeconomic trends that impact women. This gender-specific data will yield consumer insights for innovation and product development, and also better serve customer groups during and post COVID-19, with the added benefit of contributing to financial inclusion.

One additional consequence of COVID-19, which is likely to impact the insurance industry as well as society at large, is greater use of 'big data' and artificial intelligence. In the insurance context, these technologies can gather more detailed, accurate information that will enable the tailoring of products and processes so that they better suit the needs of customers. These technologies can also reduce the time it takes for individuals and SMEs to buy health, life, property, liability, and cyber-risk insurance.

It is important, too, that along with using technology to gain greater understanding of women's insurance needs, women are adequately represented in senior management of the teams implementing the new digital technologies. Historically, women have been underrepresented in leadership roles in the insurance industry. While 60 percent of entry-level jobs are held by women, they hold only 17 percent of C-suite level positions.³⁵⁹ Increasing the percentage of women in senior roles is important not only for improving gender equity, but women managers will be more likely to consider women's needs when developing products and deploying them.

Support agents in their COVID-19 response. Agents are an insurer's brand ambassadors, and often the first point of contact for customers when they need to purchase a new policy or file a claim. This is the case even if self-service digital alternatives are available. Prioritizing support for agents to help them cope with COVID-19, both personally and professionally, should in turn ensure that their customers receive good support (see Box 10.3 for examples of agent support). Equipping agents with the tools they need to sell to and service their customers remotely is expected to positively impact the financial stability of both the insurer and its agents.³⁶⁰

To assess agents' capacity to work remotely, insurers should conduct a mapping study to identify the technology and infrastructure gaps that may impact agents and devise a plan for closing these gaps. This

includes making sure that CRM software is compatible with agents' personal devices (if company-issued devices are not available). Also, given the new digital work environment, insurers should make sure that they have strong corporate cyber-risk insurance to mitigate any cyber-security incidents.

For agents who continue working, insurers should make sure that they have suitable technology to access customer contact details, they have the capacity to access policy documents, and they can issue policies and handle claims. If agents lack the knowledge and skills to use a digital platform, virtual training should be provided, and this should be tailored to the needs of women.

One example of applying new technology to cope with COVID-19 is that of Insular Life (InLife), IFC's client in the Philippines, which developed a fully digital sales system called the Virtual Business Enabler (ViBE). By using the ViBE platform, InLife's financial advisers have been able to complete insurance sales with no face-to-face contact with their clients, but still enable them to buy the important insurance products they need.³⁶¹

Developing the tools for a digitally enabled agency workforce is critical for sustaining an efficient, motivated, and agile salesforce. Offering the option

BOX 10.3 Financial Support for Agents

This is the perfect time for insurers to make sure that their agents have sufficient health and life coverage for themselves and their families. Insurers should also consider how to support those agents who face financial hardship because they are unable to continue working. For example, in the United States, Travelers Insurance accelerated the payment of over \$100 million in commissions so that its agents and partner brokers received these funds in the early months of 2020 (Insurance Journal). Another example is the Moroccan Federation of Insurance and Insurance Intermediaries, and the Federation of Insurance Agents and Brokers, which passed an emergency measure allowing members to activate a line of credit for any of their agents who need it, and also provide personal loans at reduced interest rates (Medias 24).

to work from home should be especially attractive to women so they can combine work with their caretaking responsibilities. Having a higher percentage of women in their workforce should benefit insurers, as women may be better able to relate to other women, have strong cross-selling capabilities, and they empathize with customers who are coping with misfortune.³⁶²

2. Branding & Engagement

As critical as it is for insurers to quickly adapt their operations to the constraints imposed by COVID-19, it is also important that they adopt a gender lens with their branding and engagement strategy. Insurance customers, like the public at large, are anxious to find information and solutions to help them cope during this challenging time. Thus, it is even more important that insurers' current communications and engagement strategies are rooted in empathy, and that they meet the needs of women who now bear even greater responsibility for family caretaking.

Be consistent and proactive with branding and advertising. Due to the COVID-19 crisis, insurers need to rethink their branding and advertising activities. Typically, customer acquisition costs for direct-to-consumer models are a major expense for insurers. However, due to the pandemic, people's greater interest in health and life insurance may translate into more Google searches and visits to insurers' websites.³⁶³ If insurers find this to be the case with their web traffic, they could consider temporarily reducing their advertising budgets and reallocating funds to areas with greater need.

However, there is no one-size-fits-all approach. For example, while many insurance companies have updated their product advertising to focus on COVID-19, this strategy needs to be carefully approached. Insurers should consider their reputational and even their regulatory risks with regard to what is, or is not, covered under different types of policies, and check with their reinsurers before they launch new ads.

As a result of COVID-19, some nontraditional approaches have been used to reallocate advertising budgets. Coca-Cola Company, for example, has halted all of its commercial advertising across the world and diverted the funds to COVID-19-related charities.³⁶⁴

Insurers have also made donations to COVID-19 initiatives, and some are encouraging customers and the public to donate, too. For example, in the Philippines, InLife launched a public crowdfunding campaign with donations coming from employees, agents, and partners, and peso-for-peso matching from the Insular Foundation. The funds received have been used to buy personal protective equipment (PPE) for medical workers, kitchen equipment and food for the temporary shelters housing frontline medical workers, and food packages for economically distressed communities.³⁶⁵ Insurers are also partnering with hospitals to provide life and health insurance for frontline healthcare workers and their families. In Nigeria, for example, IFC's client AXA Mansard is providing life insurance coverage for medical professionals in key Nigerian cities.³⁶⁶ In South Africa, as the local National Gender-Based Violence (GBV) Command Center is taking triple the number of domestic violence calls during COVID-19 as before, 1st for Women Insurance has been donating supplies so that the center can support the great number of GBV victims.³⁶⁷

Communicate commitment clearly and frequently to customers. As individuals and businesses are constantly bombarded with COVID-19-related news, if insurers communicate about their efforts to protect their customers, this can help reduce customer anxiety and strengthen the public image of insurers. For example, AXA Group, a French multinational insurer, published a message about its COVID-19 response³⁶⁸ that summarizes how AXA is supporting its customers, employees, and stakeholders across the world.

It is important too that insurers provide policy-related information in clear and simple language that avoids jargon. This way, women will fully understand the coverage they have for themselves and their families. Since women are more likely to manage their families' health and well-being, insurers should target women with relevant health and wellness information.

Promote company communication channels and hotlines. Women are usually very busy and, as previously noted, their caretaking responsibilities have increased with COVID-19. Thus, insurers will help all

of their customers, including women, by aggregating their responses to common queries about policies and claims, and making this information accessible through all of the company's channels (e.g. the corporate website, social media, WhatsApp, chatbots, e-mail, and hotlines). 1st for Women Insurance in South Africa, has created a specific COVID-19 webpage³⁶⁹ that lists how to contact the insurer, as well as the specific relief measures instituted by the company. As women spend a higher percentage of their time online on social networking sites (16.3 percent versus 11.7 percent for men),³⁷⁰ social media should be an effective way to communicate with women customers.

Build trust with clear and consistent communication. As people lose their jobs and their sources of income, if insurers communicate the support and solutions they are providing to their customers, this can increase customers' trust and help with retention rates. The IFC report *SheforShield* notes that women are more loyal than men to the services they use, and women can be excellent brand ambassadors. If women are satisfied with the advice and services they receive, they are 8 percent less likely to switch insurers, and more likely to recommend their insurer to friends and family.³⁷¹ In Kenya, as a result of COVID-19, Britam Microinsurance has adapted its operations to employ digital channels such as WhatsApp to communicate with and educate its customers, many of whom are first-time insurance purchasers.³⁷²

Manage and maintain customer relationships through agents. While the capacity of insurers to enable their agents to work remotely varies, insurers should advise their agents on how to service customers and remain engaged with them. In addition to responding to customers' queries, agents should reach out to customers so that they know their agent will be available, despite the current crisis. Women consistently show their preference for a sales experience that is customized to their needs and offers them tailored advice.³⁷³ In order to enhance their relationships with customers, and especially with women customers, insurers could offer virtual training programs that educate agents on how to avoid unconscious bias and how to better address the needs of women customers.*

* Since 2017, IFC has been developing customized gender-sensitivity training programs for IFC clients' staff and agents. The training equips agents with the knowledge and tools they need to better serve women customers and empathize with them.

This is also an excellent time to leverage the inherent strengths of women agents. As already noted, women have proven that they are more relationship-focused than men, they explain products well, and they enjoy building long-term relationships with their customers. Women also usually display empathy easily, and they understand the needs of an entire household.³⁷⁴ Even though insurers' use of digital technology is increasing, agents will remain an important part of the insurance sales and client relationship process. Women agents are invaluable in communities where custom prevents women from interacting with men.

Educate women about personal and business financial resilience. To support women entrepreneurs, insurers should provide resources that will help these women to access credit, manage cash flow, and enable their businesses to become more resilient. More broadly, insurers can provide women customers with resources that build their knowledge about personal and business finance so that they feel empowered to make good decisions during this challenging period.

- In the U.S., Ellevest, a women-centric digital investment platform, uses a newsletter to share financial planning tips and highlight the financial resources available to women small business owners.³⁷⁵
- In the Philippines, as part of the Sheroes program that InLife has developed with IFC, the program's website has developed content that advises Filipino women on how to maintain their physical, psychological, and financial well-being in response to COVID-19. To support WSMEs, Sheroes also organizes virtual webinars that equip Filipina business owners with the tools to face their financial challenges.³⁷⁶
- In Nigeria, Access Bank, IFC's Banking on Women client, has been offering webinars to help women entrepreneurs improve their business strategy and operations. Through its women-centric platform, W Initiative, Access Bank recently offered a virtual class on how to digitize business processes.³⁷⁷

Direct women to resources that can help them and their families deal with stress and challenges.

By acknowledging that these are stressful times, communicating meaningfully, and directing women to relevant information, insurers can go a long way in garnering women customers' loyalty and trust. This

also creates more 'touch points' to interact with women that are not related to sales or servicing claims.

- In the Philippines, to support women customers' well-being, Malayan Insurance hosted 'Calm in Crisis: A Webinar about Women's Mental Health and State of Mind During [the] Pandemic.' This was produced by the company's WeWomen initiative,³⁷⁸ a partnership with IFC.
- In the U.S., Cigna Health Insurance has launched a program³⁷⁹ to support its senior customers who are in social isolation. This monitors their general health, well-being, and daily needs, and helps not only these seniors, but also their children, who are worried about their parents.
- In Morocco, Atlanta Insurance has launched a digital platform³⁸⁰ that connects volunteers who offer psychological counselling, elder-care, and other support to its clients.
- In South Africa, through its digital platform, 'ForWomen', 1st for Women Insurance³⁸¹ is linking South African women to GBV resources.

3. Product Innovation

Innovate to provide tangible benefits to clients.

Many examples of innovation have emerged in the insurance market since the COVID-19 pandemic began. In the Philippines, FWD has added a medical benefit for life insurance policyholders who are diagnosed with COVID-19, as well as extra cover for funeral costs if the policyholder dies from the virus.³⁸² In Ghana, Prudential Life Insurance launched Pru Covered-19,³⁸³ an add-on that is automatically available to all customers. This includes a diagnostic and hospitalization allowance for them or any family member diagnosed with COVID-19, as well as a lump-sum payout in the event of death. When considering any additional coverage and services, insurers should work with their reinsurers to draw on their expertise regarding product development, underwriting, pricing, and risk management.

Some companies are now offering a discount by providing one month of free coverage (i.e., 13 months of coverage for the price of 12). In countries such as India, this is driven by insurance regulation, while in other

markets this is through the good will of insurers. For example, some U.S. insurers, such as State Farm,³⁸⁴ are providing cash rebates, often calculated as a percentage of the premiums paid by policyholders. The company can afford to offer this benefit due to lower claims in certain business lines, such as motor insurance. In the United Arab Emirates, the motor insurer, Beema, is offering one month of free car insurance to prospective customers.³⁸⁵ Also, in response to COVID-19, Next Insurance, a digital insurer in the U.S. that focuses on SMEs, is offering them general liability, professional liability, and commercial motor insurance, with a 25 percent discount on their premiums.³⁸⁶

Help financially challenged customers to afford their premiums. This includes allowing payment in smaller installments and/or offering policies with a shorter duration. This is something that IFC's investment client in Greece, Hellas Direct, has been doing for several years. Other insurers are allowing delayed payments. In the Philippines, where the insurance regulator now requires insurers to extend the deadline for premium payments by 30 days, InLife has extended its grace period to 91 days.³⁸⁷

Creation of new solutions is occurring during the pandemic. If their current insurance products do not cover the risks related to COVID-19, some companies are offering innovative solutions to offset the virus's impact. However, before doing so, insurance companies should ensure that the new solutions follow regulatory guidelines.

- In February 2020, TQM Corp, in Thailand, introduced a Coronavirus Insurance policy³⁸⁸ that promises to pay 50,000 baht (approx. \$1,500) to policyholders if they contract the disease. This policy is priced low enough for all income levels.
- Bharti AXA General Insurance, in India, has partnered with Airtel Payments Bank to offer two types of affordable health insurance plans³⁸⁹ that target individuals as well as groups. The individual plan offers a lump sum benefit, while the group plan provides a fixed daily hospital allowance.
- Insurers can offer policyholders the option of adding family members or domestic workers to their policies for a discount. This is giving domestic workers such as maids and chauffeurs health and life insurance that they could not previously afford.

Consider highlighting alternate digital solutions to healthcare management. Due to the threat of catching COVID-19, many people are avoiding medical facilities if they can. This has made telemedicine more acceptable, as it is an important alternative to in-person medical visits. Telemedicine is particularly important for women customers due to their caregiving demands, and some insurers are now promoting telehealth to them. For example, Oscar Health in the U.S.,³⁹⁰ which has doctors on call for free, 24 hours a day, seven days a week, now offers its customers unlimited telehealth visits.

In markets where travel to, and waiting for, medical appointments is time consuming, COVID-19 may pave the way for medical personnel and patients becoming more comfortable with telemedicine for routine care. Telemedicine can also offer a safe way to counsel people who have mental health problems,³⁹¹ and mental health and dementia telehealth applications could be provided as “add ons” or bundled with other services.³⁹²

In Nigeria, in response to COVID-19, AXA Mansard Health Limited launched a telemedicine partnership with Tremendoc³⁹³ to ensure that Nigerians have access to doctors who can diagnose and prescribe treatment while meeting social-distancing

BOX 10.4 Insurance Regulations

In many cases, regulators have become more receptive to innovations that address the crisis. For example, in Brazil, the regulator is temporarily allowing telemedicine (MOH Brazil). As such new approaches could continue after the crisis, insurers should engage with regulators now so that their innovations can continue. The ‘sandboxes’ created to allow insurers to test innovations prior to COVID-19 are now being used to develop new insurance products and processes for dealing with the pandemic. Examples of these include:

- The sandbox of the Financial Conduct Authority in the United Kingdom (FCA UK)
- The sandbox of the Insurance Regulatory Development Authority of India (IRDAI) (Bloomberg)

requirements. In the United States, Mass Health has partnered with Maven, a telehealth provider for family and women's health that is providing free telemedicine appointments for its clients.³⁹⁴

4. New Distribution Channels

To reach more customers, insurers need to think outside the box. A key tool for achieving greater outreach is through partnerships, both for distributing insurance products and for offering ancillary ones. Alternative digital distribution methods include using price comparison websites or online brokers. This allows the insurer to leverage a better-quality digital platform, as well as tap into the partner's large customer base. In this context, it may make sense for an insurer to partner with a bank or an e-commerce company that has high-quality digital infrastructure and a large client base that the insurer can access, subject to local regulations.

- When the crisis began, DBS Bank in Singapore, in partnership with CHUBB Insurance,³⁹⁵ offered a free COVID-19 hospital cash benefit to the bank's customers that will pay for hospitalization due to the virus.
- Digital intermediaries such as Roojai, an IFC investment client in Thailand, which originally sold motor insurance on its platform, has leveraged its digital capabilities and call center to offer the health insurance products of Dipaya Insurance.³⁹⁶
- In partnership with banks, insurers are offering lines of credit to SMEs and WSMEs that purchase their products, and also providing online education about more complex financial products. For example, in addition to offering low interest loans, Siam Commercial Bank is offering a special COVID-19 insurance package to SME owners.³⁹⁷

Now more than ever, insurers need to consider where women are active online, and use this knowledge to better access and support them. E-commerce platforms such as retailers and wholesalers can provide a powerful way for insurers to reach individuals and MSMEs because these platforms have strong digital

infrastructure and a large consumer base. Although insurers can leverage these platforms, they need to ensure that products are explained in simple language, and that the delivery methods meet regulatory requirements. For example, Lazada, an e-commerce platform popular in Southeast Asia, partners with insurers to offer affordable life and personal accident insurance to its customers.

To reach more women, insurers need to look beyond their traditional channels. Insurers should invest in understanding the networks that individual women and WSMEs use, as well as the organizations that advocate for them. Both approaches can help insurers to reach women who have previously been disregarded by the insurance industry, and help to gain women's trust. For example, in Nigeria, AXA Mansard leveraged its relationship with Nigeria's largest women's business network, WimBiz, to deliver seminars on health and wellness, as well as on financial literacy, and these seminars have raised women's awareness about how insurance can address their individual, family, and business risks.

Conclusion

As highlighted in this chapter, women play an important role in the insurance industry as emerging market consumers and workforce. Therefore, now even more than before the COVID-19 crisis, insurers need to consider the needs of women and how to better serve them.

By recognizing women's multifaceted roles and considerable market potential, insurers can create impact that goes far beyond their top and bottom lines. In doing so, insurers will not only be able to improve access to insurance for a segment that has been traditionally underserved, but can also help reduce the widening of the gender gap due to COVID-19. Through supporting opportunities for women to work from home, insurers will be able to attract a larger pool of talent capable of contributing significantly to industry growth. This, in turn, will support innovation, help improve resiliency to crises, increase women's economic empowerment, and contribute to economic growth. ■

CHAPTER 11

Childcare in the COVID-19 Era— A Guide for Employers

By Rudaba Nasir, Sherrilee Ann Le Mottee, and Anita Gurgel

Across the world, countries are implementing measures to bring the COVID-19 pandemic under control. To protect families, businesses, and economies, most countries have imposed lockdowns, restricted gatherings and movements, closed schools, kindergartens, nurseries, preschools, and daycares, announced business and office closures, and mandated home-based work (HBW) to curb the spread of COVID-19. As employees try to meet their new work and family obligations in these unprecedented times, the loss of childcare options and school closures presents a parallel crisis.

Working parents and their employers now find themselves in an ever-changing work and care landscape that can be increasingly tricky to navigate. Working mothers, who in many cases assume more care responsibilities than men,³⁹⁸ can be particularly impacted by this crisis as they may have to absorb the day-to-day demands of HBW or be out of work where HBW options are unavailable, while also juggling increased amounts of unpaid care and household work.³⁹⁹ Employers that are urgently addressing the care needs of their employees during this emergency, especially of those in lower-income settings, can achieve business sustainability, productivity, and profitability in the long run.

This chapter, a companion to *IFC's Global Guide for Employer-Supported Childcare*,⁴⁰⁰ outlines ways that employers can support the care and family needs of their employees in the COVID-19 era and fulfill their obligations under the UN Guiding Principles on Business and Human Rights.

Questions to consider

1. What are the current directives and guidance from the government that impact childcare?
2. Do current workplace policies provide sufficient support to employees and their families?

3. How can employers support employees under these circumstances?
4. Are there any international or local online resources available to help parents during this crisis?

Complying with regulations

A variety of government responses to COVID-19 are being implemented around the world. As expected, not all countries have responded at the same pace or in the same way. Requirements, including those pertaining to employment and childcare, are being continuously updated to curtail COVID-19's spread and impact.

As an employer, it is crucial to stay abreast of and comply with these employment and childcare-related protocols, be it at the national or federal level or at the local, state, provincial, and municipal levels. Depending on the circumstance, directives might stipulate closing care facilities or offering care services to a select group of families, such as those of essential staff.⁴⁰¹ Keeping open lines of communication with employees at this time is also crucial to ensure they understand the requirements and actions that are being taken and are able to share their concerns and needs as well. Employees should also be guided with respect to seeking medical support, if needed.

BOX 11.1 Engage Actively in Shaping the Future

Governments across the world are looking for ways to protect economies, including by supporting businesses and instituting employee protections. By engaging in dialogue and advocacy with governments, parents, and employer and business membership organizations, employers can contribute to how states respond, influencing the way policy and programs are shaped.⁴⁰²

Employers can also consider going above and beyond what is strictly required by governments to better protect their employees and their families. Employers might choose to act before recommendations become mandatory and/or take more stringent measures if they feel it is required to slow the spread of the disease or ensure the protection of their employees.

Temporarily closing childcare facilities

In many countries, compliance has meant the mandatory closure of childcare facilities. Closed care centers can present a significant challenge to working parents, including frontline workers, and for vulnerable children who depend on such facilities for care, nutrition, and stimulation. However, the benefits of closure are important and may outweigh the challenges in the long term.

By closing centers, the rapid spread of COVID-19 and other respiratory illnesses can potentially

be reduced, thus protecting the health of young children, families, and communities. Young children infected with COVID-19 may spread it, given that they are still learning personal hygiene habits such as covering their coughs, washing their hands, and respecting others' personal space. They can, thus, transmit COVID-19 to at-risk populations in their vicinity, including grandparents and other family or community members.

Evidence from a recent preliminary and small-scale study of COVID-19's impact on Chinese children shows that 90 percent of children in the study exhibited no symptoms or developed only mild to moderate ones, compared to adults. However, the study showed that infants and preschool-aged children were more likely to have severe symptoms, compared to older children: 6 percent of children in the study under the age of six developed life-threatening symptoms, including respiratory, heart, and kidney failure.⁴⁰³

Supporting employees

In the event of childcare center and school closures, employers can be resourceful about how to help employees manage work and childcare. There are several ways in which employers can respond to the needs of their employees and offer innovative family-friendly support in the COVID-19 era. Employers can start by regularly checking in with their employees and asking them about their childcare and family needs, concerns, and possible solutions. For children from vulnerable communities, this includes supporting social protection wherever possible.⁴⁰⁴



Provide childcare services to essential workers, such as those in healthcare



Allow home-based work (HBW), where possible



Offer flexible work options (even during HBW)



Allow staff to take (paid) family leave

FIGURE 11.1 Supporting Employees

Provide childcare services to essential staff

Employers that offer childcare and have the option of keeping it open in line with government directives can consider restricting usage to only the children of essential employees. This is particularly important for employers operating in sectors providing essential services such as healthcare, medicine, and food. Employers not operating in sectors providing essential services can convert or repurpose their childcare facilities to support essential staff, such as doctors and nurses, following strict health and safety guidelines. Functioning infrastructure is imperative in the COVID-19 era for public health and safety as well as community well-being. Childcare, at this time, can be an important part of this infrastructure and an essential service that underpins parents' ability to work and perform essential, life-saving services.⁴⁰⁵

For parents who are essential staff in a time of crisis—such as nurses, doctors, shopkeepers, pharmacists, caregivers, and employees in the sanitation and food industries—childcare is an essential service. Countries that have opted to keep childcare programs operating or convert schools into childcare spaces for healthcare and other frontline workers have put in place strict protocols to be

BOX 11.2 For Childcare Centers Catering to Children of Essential Staff, the Following Steps are Necessary

Take daily preventative action. Ensure children with symptoms stay at home and receive urgent medical attention. Limit the number of children in groups. Practice social distancing. Teach children to cover coughs and sneezes with their arms. Hold regular hand-washing sessions and reinforce this practice after bathroom breaks. Make sure soap, water, and hand sanitizers are available; supervise children as they use hand sanitizers. Sanitize all surfaces regularly. Ensure teachers and children know how to protect themselves and minimize the spread. Also see CDC's guidance for childcare programs that remain open.

followed to reduce risks. Compliance with these regulations is critical to the well-being of parents, children, and childcare staff.⁴⁰⁶

Allow home-based work (and provide innovative supports to make it a success)

While home-based work has positive spin-offs in terms of containing the spread of COVID-19, managing children while working full-time at home can be demanding and stressful. It can also be isolating and may raise levels of depression, irritability, and stress. Employers can help parents make a smoother transition to HBW in the following ways:

Provide access to an online preschool service

This service could be delivered online by childcare staff that the children are already familiar with, thereby ensuring that childcare staff are also supported during the crisis. Service may include songs, daily exercise, stories, and activities delivered using online platforms. This approach may help parents to keep their children happy and

BOX 11.3 A Note on Connectivity and Access

A variety of websites and applications exist that provide ideas and activities for children of different ages and interests. Some are more educational than others, focusing on learning and development. Some require children to be online while engaging in the activity, others only require a one-time download of the instructions. Employers who want to offer innovative solutions to assist in childcare when facilities are temporally closed are advised to consider the needs and demographics of their workforce as well as their connectivity at home. Many employees may not have access to computers and the Internet at home, some may only be able to connect through their phones while others may not be able to connect at all. One option might be to create simple booklets with activity ideas based on different age groups and then distribute these toolkits to employees.

learning but it cannot be a substitute for parental involvement, especially for younger children. In addition, it may also raise concerns in terms of ensuring children's online safety and limiting their screen time. Also, access to connectivity and types of devices can vary across income levels. Governments and employers are therefore testing and using different combinations of radio, TV, smartphones, WhatsApp, and online and offline tools to provide these services.

Support parenting skills

Employers can support parents through online platforms. This may include establishing parent support groups and offering parenting workshops to enhance interactions between parents and children, involve children in family activities, and improve children's self-sufficiency and discipline. With the right parenting approaches, family bonds can be strengthened and children's psychological needs can be met, even in emergencies.⁴⁰⁷ Employers may also offer sessions on family planning, given that in several countries parents are being advised to reconsider pregnancy and birth plans because of lack of healthcare system capacity.

Support mental health and well-being

Mental health counseling and support could help employees cope, as many may be unprepared to balance work and family needs amid the panic of the crisis. Helping employees manage potential grief, stress, anxiety, depression, insecurity, isolation, and burnout resulting from the pandemic can contribute to workforce stability in the long run.⁴⁰⁸

Provide financial support to parents

Childcare allowances or subsidies provided by employers may allow working parents to better manage their scarce resources and meet their childcare and work obligations. Subsidies can help cover costs of meals, supplies, and distance-learning materials, including tablets or tools to access online learning.

Offer emergency childcare services

Employers may have employees who are considered essential workers, such as those who work in

healthcare, agriculture, food distribution, or sanitation. In such cases, providing emergency care or contributing to community efforts to care for the children of these essential workers may be necessary. Again, each country may have regulations for the set-up and management of such back-up services to which companies should adhere.⁴⁰⁹ Where such care is allowed, every effort should be made to ensure that children, families, and childcare workers are protected from the spread of COVID-19. This includes ensuring that children are in small groups, that strict protection and sanitary protocols are followed, and that workers have adequate training, health support, and supplies.⁴¹⁰

Put in place measures to protect employees and their children

The spread of COVID-19 and its socioeconomic impact has increased anxiety and stress for many families. High stress in home environments is often associated with increased domestic violence and child abuse. It can also lead to increased social stigma and biases against individuals and groups of people, for example, those who have the virus and their families, or those who may be associated with myths relating to its origin. Employers can put in place measures to increase the protection of their employees and families at this time. This may include measures to address, prevent, and act on any harassment related to COVID-19.⁴¹¹ Employers can also regularly share reliable information and updates on COVID-19 to curb the spread of misinformation that can potentially lead to negative consequences for individuals, families, and communities.

Offer flexible work options (even during HBW)

When possible, allowing all employees, especially working parents, to work flexible hours while working from home may also provide a good solution for some families, allowing one parent to work while the other provides childcare and then swapping care duties. Many employers around the world have started offering a range of flexible work options to their employees. These include options such as working remotely, staggered starting/finishing times, and split shifts.⁴¹²

BOX 11.4 A Note on Offering Kindness, Compassion, Communication, and Understanding

During crises, it is important to remember that not everything will go as planned. Often, overworked and stressed parents appreciate clear, daily communication with their employers as well as kindness and understanding as they juggle childcare and work obligations. Being flexible and setting realistic goals and expectations in terms of deliverables can go a long way and complement other efforts such as online resources and HBW, as many employees with full-time childcare responsibilities and limited childcare options may not be able to deliver the same amount of work as under normal circumstances. In cases where employees are unable to work, employers can provide guidance on what to do or offer paid family/emergency leave. In any case, cultivating a sense of security and sharing empathy and understanding can help both employers and their employees.

While these measures have worked in many instances, not all work can be done from home. This is especially true for essential service employees. Employers would need to assess their situations in tandem with their employees to come up with viable solutions that work for all.

Allow staff to take paid family and emergency leave

Providing paid leave to allow employees to take care of family responsibilities without stress may be a good, short-term solution, especially for employees in jobs that cannot be performed from home. Being out of work and the the income insecurity associated with it can threaten the welfare and well-being of young children and families and their ability to be productive in the long run. Retaining employees during this crisis will ensure experienced workers are available when the COVID-19 restrictions are lifted. Employers can help ensure that employees, especially those suffering from COVID-19 and/or taking care of ill family members, have access to medical and financial support during this difficult time.⁴¹³ ■

CHAPTER 12

COVID-19 and Gender-Based Violence: Workplace Risks and Responses

By Shabnam Hameed

Gender-based violence increases during public health emergencies.⁴¹⁴ Increases in violence can be due to reduced access to necessities, financial stress, the potential breakdown of societal infrastructures, quarantines and social isolation, family separation in conflict or fragile contexts, or the inability to escape abusive partners.⁴¹⁵

The COVID-19 pandemic is a public health emergency of global scale. Millions of people have been infected, hundreds of thousands have died, and many more are suffering economically. Baseline forecasts expect a 5.2 percent contraction in global GDP in 2020—the deepest global recession in eight decades.⁴¹⁶

Thirty-one million additional gender-based violence cases are expected globally in the first six months of COVID-19 lockdowns, and an additional 15 million cases of gender-based violence are expected for every three months that lockdowns continue.⁴¹⁷ Many more people are working from home as a result of the lockdowns, increasing stress in domestic relationships and sometimes exacerbating violence.⁴¹⁸

Furthermore, certain groups of people such as essential workers and those suspected to be carriers of COVID-19 may also be at risk of stigmatization, discrimination, and violence.⁴¹⁹

Gender-based violence has serious negative consequences for people affected by violence and their families and communities, including immediate impacts on safety and mental, physical, and sexual health and well-being. Longer-term impacts can include mental, physical, and sexual impairment, financial hardship, economic insecurity, and homelessness.

In addition to the harm caused to people directly affected, gender-based violence can negatively impact employers in a variety of ways, including:

- Exposing employees and customers to increased health risk
- Reducing productivity
- Increasing absenteeism or turnover of employees
- Reducing employee engagement
- Increasing safety and security costs, and
- Damaging the employers' public image or affecting customer satisfaction

In some countries, gender-based violence is estimated to cost up to 3.7 percent of GDP—more than double what most governments spend on education.⁴²⁰ Gender-based violence also directly affects businesses' bottom lines, with research from Fiji showing that high rates of domestic and sexual violence translate into lost staff time and reduced productivity that is equivalent to almost 10 days of work per employee each year.⁴²¹ While this research is specific to Fiji, similar costs of violence are expected in other contexts.

Women, girls, boys, and men can be victims of gender-based violence; however, women and children are disproportionately affected. Factors other than gender such as race, religion, ethnicity, age, sexual and gender orientation, or disability may also increase the risk of experiencing violence.

There are actions employers can take to address these risks and improve employee and community well-being and create safe and resilient workplaces.

COVID-19 creates gender-based violence risks for workplaces including:



Customer and client aggression: Unacceptable or hostile behaviors targeted toward employees



Workplace bullying: Repeated and unreasonable behavior directed toward a worker or a group of workers that creates a risk to health and safety



Workplace sexual harassment: Unwelcome conduct of a sexual nature, which makes a person feel offended, humiliated, or intimidated



Sexual exploitation and abuse connected to the workplace: Any actual or attempted abuse of a position of vulnerability, differential power, or trust for sexual purposes, including but not limited to profiting monetarily, socially, or politically from the sexual exploitation of another



Domestic violence: Includes physical, sexual, psychological, or financial abuse perpetrated by intimate partners, family, or household members

FIGURE 12.1 COVID-19 Creates Gender-Based Violence Risks for Workplaces

Customer and Client Aggression

Employees may be at increased risk of customer and client aggression due to COVID-19. Customers and clients may be feeling stressed about access to goods and services that the company is providing or the impacts of COVID-19 generally. They may also refuse to follow precautions to minimize the risk of transmitting COVID-19. They may react with hostility toward employees, especially if employees are providing essential services such as access to food or other necessities, utilities, banking, and healthcare. Aggression may be particularly targeted at employees from marginalized groups and may be racist, sexist, homophobic, or transphobic.

Employees may experience an increase in a range of unacceptable and hostile behaviors while at work or outside of work, including:

- Refusal to abide by local protective norms to minimize COVID-19 transmission, such as refusal to wear a mask, maintain social distance, or minimize personal contact with employees;
- Hostile or threatening gestures such as aggressive facial expressions and invasion of their personal space;
- Threatening or offensive behavior such as pointing,

fist shaking, pounding counters, foot stomping, and door slamming;

- Verbal abuse of either a personal or general nature by means of innuendo or insult, raised voice, or obscenities, including racist, sexist, homophobic, and transphobic comments;
- Physical violence such as hitting, kicking, seizing, pushing, or punching; or
- Physical violence against an employee's personal or company property.

Employers could consider:

- Explaining to customers and clients what is expected of them, including what measures are being taken to minimize COVID-19 transmission, and customer and client obligations;
- Communicating to employees, customers, and clients that unacceptable and hostile behavior toward employees will not be tolerated;
- Developing and communicating guidelines on how employees and their supervisors should respond to and report customer and client aggression, including what to do during an incident, how to report the incident, and where to seek support; and

- Monitoring and evaluating incidents and responses to customer and client aggression and updating guidelines as necessary.

Workplace Bullying and Sexual Harassment

Workplace bullying and sexual harassment are likely to increase as a result of COVID-19 as negative social discourse that is happening outside a workplace may make harassment inside the workplace more likely or perceived as more acceptable.⁴²² Employees may repeat unhelpful or unsubstantiated beliefs on the causes and carriers of COVID-19 and may engage in disrespectful behavior toward colleagues they believe are responsible for the pandemic and its impacts. Employees from groups perceived to be outsiders, such as migrant workers, those from ethnic minorities, those who do not speak the dominant language, or those from sexual and gender minorities may be at particular risk of stigmatization, discrimination, and violence from colleagues. In some countries, class or caste dynamics can also increase the vulnerability of some workers to violence. Workplace bullying and/or sexual harassment can take place between different genders or people of the same gender.

Employees who are working online are also likely to experience an increase in cyber-violence, including image-based abuse—when a nude or sexual image of a person is taken or shared without that person’s permission, or cyber bullying or online harassment—intimidation, humiliation or threats; and illegal and harmful content, including child pornography.⁴²³ Employees may also be bullied or harassed by colleagues or supervisors using online technology. Those working remotely for the first time may also experience an increase in bullying and harassment from supervisors who may not have the skills to manage staff remotely or may not be responsive to the employee’s needs, such as flexible work hours because of additional childcare responsibilities caused by school closures.

Employees in frontline services are also likely to experience an increase in sexual harassment from customers and clients. Reports from China and Singapore show high levels of intimidation and aggression toward female health professionals, especially nurses, in the current crisis.⁴²⁴

Employees are also at heightened risk of quid-pro quo sexual harassment at companies that are restructuring or downsizing.

Quid pro quo sexual harassment is an inappropriate use of power and occurs when some type of employment benefit is made or perceived to be contingent on sexual favors in some capacity. It includes requests for sexual favors, unwelcome advances, or other verbal or physical conduct of a sexual nature when either of the following conditions is met:

- Agreeing to such request or conduct is made or perceived to be a term or condition of a person’s employment; or
- The request or conduct is explicitly or implicitly used as the basis for employment decisions affecting that person.

Usually this type of sexual harassment occurs between someone in a position of power and a subordinate.

Quid pro quo sexual harassment is likely to increase when there are significant power disparities within workplaces, and supervisors feel emboldened to exploit lower-ranking employees. Gendered power disparities in highly hierarchical organizations, where a predominantly female workforce reports to predominantly male supervisors, will also increase the risk of quid pro quo sexual harassment.⁴²⁵

Employees who are victimized may not report the harassment if they are afraid, particularly if the harasser has power to reduce their wages or shifts, redeploy them, stand them down, or make them redundant. Employees may also be deterred from reporting harassment if they feel there will be no accountability or if they feel that they will not have access to services and support. As such, it is important to encourage all employees to report any incidents that they witness or hear about.

Employers could consider:

- Promoting gender equality and diversity in their workforce and supply chain;
- Ensuring that all processes around restructuring and downsizing are transparent and understood by employees;
- Ensuring that all decisions about restructuring or downsizing are made by a gender-balanced and

diverse committee and are transparent to reduce the discretion of individual managers and thus the likelihood of quid pro quo sexual harassment;

- Ensuring that the impacts of restructuring or downsizing do not disproportionately impact any group based on race, religion, ethnicity, age, sexual and gender orientation, or disability;
- Reminding employees of existing policies, grievance mechanisms, and support services relating to workplace bullying and sexual harassment, with consideration of refresher training;
- Communicating with employees about the heightened risks of workplace bullying and sexual harassment during COVID-19 and encouraging any employee who experiences, witnesses, or hears about such harassment to report it immediately through anonymous, informal, formal, and/or online reporting mechanisms;
- Acting promptly to investigate and resolve all issues raised in a safe and confidential manner; and
- Ensuring that any disciplinary action taken is based on the outcome of the investigation and proportionate to the impacts of the harassment.

Sexual Exploitation and Abuse Connected to the Workplace

The risk of sexual exploitation and abuse being perpetrated by employees toward customers, clients, and community members can increase during health emergencies.⁴²⁶ Employees may have more access to, and more power over, vulnerable populations and may engage in sexual misconduct that harms people and communities and damages the reputation of the employer. Teenage girls and other vulnerable populations may be groomed to engage in sexual relationships as a channel for financial support and/or there may be a rise in sexual violence.⁴²⁷

As with quid pro quo sexual harassment in the workplace, it is unlikely that victims of sexual exploitation and abuse will report the incidents, due to the power differentials between them and the perpetrator. As such, it is important to encourage bystanders, who are not directly involved in the abuse, to report any incidents they witness or hear about.

Employers could consider:

- Communicating with employees about the heightened risks of sexual exploitation and abuse during COVID-19 and encouraging any employee who experiences, witnesses, or hears about such harassment to report it immediately, through anonymous, informal, formal, and/or online reporting mechanisms;
- Reminding stakeholders such as community members in the vicinity of the business of existing policy and grievance mechanisms; and
- Acting promptly to investigate and resolve all issues raised.

Domestic Violence

It is estimated that domestic violence incidences will increase by at least 20 percent globally during the first three months of lockdown due to COVID-19.⁴²⁸ Domestic violence can occur in intimate relationships between people of the same or different genders, within the family, or the household. COVID-19 and its impacts, such as stress, are not a direct cause of domestic violence but can contribute to more severe episodes of violence.

Employers could consider:

- Providing domestic violence information at the physical workplace, including existing company policies and support available to employees, as well as how to contact essential support services;
- Creating a safe and private space in the workplace where employees can contact domestic violence services, and make reasonable adjustments to employees' work locations and schedules to ensure the employees' safety while at work; and
- Providing general information to employees via email about employee well-being, including information on healthy conflict resolution and healthy parenting, and advising employees how to access counselling services. Communication may include a brief reference to domestic violence.

Employers should not:

- Provide in-depth information about domestic violence into employees' homes, as many employees

may live with the perpetrator. Domestic violence information or enquiries may trigger the perpetrator and exacerbate the violence; or

- Survey workers or inquire about experiences of violence while the employee is working from home.⁴²⁹

If you are concerned that an employee is at risk of domestic violence:

- Ask the employee to attend a meeting with you away from their home, so that they can speak freely without the perpetrator being present.
- If you are conducting this meeting virtually, double check that the employee is not in the presence of the perpetrator and provide employees with information on how to stay safe virtually, including how to clear their Internet browsing history.
- If you need to urgently contact an employee in their home about being at risk of domestic violence,

consult with a domestic violence service provider first and seek their support to reduce the risk of violence against the employee.

Key Message

Employee and community well-being can be impacted by COVID-19 gender-based violence risks. These risks have long-term negative consequences for people, their families, communities, and businesses. Those who are directly impacted may be reluctant to report the abuse because of the heightened power differential between victims and perpetrators of abuse during this time and because of reduced access to support services or mobility restrictions. It is important that employers address these risks by encouraging all employees, and especially bystanders to abuse, to raise any issues and report incidents they witness or hear about. ■



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ADDITIONAL RESOURCES AND FURTHER READING

WORLD BANK GROUP RESOURCES ABOUT GENDER-SPECIFIC RESPONSES TO COVID-19

- Addressing Gender-Based Violence and Harassment—Emerging Good Practice for the Private Sector. https://www.ifc.org/wps/wcm/connect/topics_ext_content/ifc_external_corporate_site/sustainability-at-ifc/publications/publications_gpn_addressinggabh
- The Business Case for Addressing Domestic Violence in the Workplace. <https://www.youtube.com/watch?v=DNNet95o8zmE>
- The Business Case for Workplace Responses to Domestic and Sexual Violence in Fiji. https://www.ifc.org/wps/wcm/connect/region_ext_content/ifc_external_corporate_site/east+asia+and+the+pacific/resources/fiji-domestic+and+sexual+violence+report
- Childcare in the COVID-19 Era: A Guide for Employers. https://www.ifc.org/wps/wcm/connect/topics_ext_content/ifc_external_corporate_site/gender+at+ifc/resources/childcare+and+covid+guidance+for+employers
- Gender Dimensions of the COVID-19 Pandemic. <https://documents.worldbank.org/en/publication/documents-reports/documentdetail/618731587147227244/gender-dimensions-of-the-covid-19-pandemic>
- The Impact of Domestic and Sexual Violence on the Workplace in Solomon Islands. https://www.ifc.org/wps/wcm/connect/region_ext_content/ifc_external_corporate_site/east+asia+and+the+pacific/resources/solomon+islands-domestic+and+sexual+violence
- Interim Advice for IFC Clients on Preventing and Managing Health Risks of COVID-19 in the Workplace. <https://www.ifc.org/wps/wcm/connect/2ab83243-0b50-4d80-a007-f96c4b589634/Tip+Sheet+Interim+Advice+OHS+COVID19+April2020.pdf?MOD=AJPERES&CVID=n5B0L.c>
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- Respectful Workplaces: Exploring the Costs of Bullying and Sexual Harassment to Businesses in Myanmar. https://www.ifc.org/wps/wcm/connect/region_ext_content/ifc_external_corporate_site/east+asia+and+the+pacific/resources/respectful+workplaces-myanmar
- Supporting Women Throughout the Coronavirus (COVID-19) Emergency: Response and Economic Recovery. <https://openknowledge.worldbank.org/handle/10986/33612>
- Tip Sheet for Company Leadership on Crisis Response: Facing the COVID-19 Pandemic. https://www.ifc.org/wps/wcm/connect/topics_ext_content/ifc_external_corporate_site/ifc+cg/resources/guidelines+reviews+and+case+studies/tip+sheet+for+company+leadership+on+crisis+response+-+facing+the+covid-19+pandemic
- Workplace Responses to Gender-Based Violence. <https://www.ifc.org/wps/wcm/connect/f2a7046d-66cc-426a-98dc-284624ed0ad6/Factsheet+-+GBV+-+July+20.pdf?MOD=AJPERES&CVID=ndNYfyj&ContentCache=NONE&CACHE=NONE>
- World Bank Group Gender and COVID-19 Resource Library. <https://www.worldbank.org/en/topic/gender/brief/gender-and-covid-19-coronavirus>

FURTHER READING

Additional reports about investing in challenging markets, the role of technology in emerging markets, as well as a list of EM Compass Notes published by IFC Thought Leadership: [ifc.org/thoughtleadership](https://www.ifc.org/thoughtleadership)

LIST OF PREVIOUSLY PUBLISHED EM COMPASS NOTES AND OTHER NOTES INCLUDED AS CHAPTERS IN THIS REPORT

Chapter 1, *Leveraging Inclusive Businesses Models to Support the Base of the Pyramid during COVID-19*, was published previously under the same title and was expanded for this report (Alexis Geaneotes and Kathleen Mignano, EM Compass Note 84, IFC, May 2020).

Chapter 2, *Impacts of COVID-19 on the Private Sector in Fragile and Conflict-Affected Situations*, was published previously under the same title (Fragile and Conflict Situations (FCS) / International Development Association (IDA) Coordination Unit, IFC, in collaboration with FCS Africa, Africa Region, IFC, EM Compass Note 93, November 2020).

Chapter 3, *The Impact of COVID-19 on Disruptive Technology Adoption in Emerging Markets*, was published previously under the same title (Davide Strusani and Georges Vivien Hounghonon, IFC Note, September 2020).

Chapter 4, *Social Bonds Can Help Mitigate the Economic and Social Effects of the COVID-19 Crisis*, was published previously under the same title (Sophie Peeters, Maud Schmitt, and Ariane Volk, EM Compass Note 89, IFC, August 2020).

Chapter 5, *Impacts of the COVID-19 Crisis on Private Equity Funds in Emerging Markets*, was published previously under the same title (Davide Strusani, Priyanka Verma, and Giorgio Manenti, IFC Note, August 2020).

Chapter 6, *What COVID-19 Means for Digital Infrastructure in Emerging Markets*, was published previously under the same title and was expanded for this report (Davide Strusani and Georges Vivien Hounghonon, EM Compass Note 83, IFC, May 2020).

Chapter 7, *Lessons for Electric Utilities from COVID-19 Responses in Emerging Markets*, was published previously under the same title and was expanded for this report (Stefan Apfalter, Martin Hommes, Miguel Pereira Mendes, and Natsuko Toba, EM Compass Note 90, IFC, September 2020).

Chapter 8, *When Trade Falls—Effects of COVID-19 and Outlook*, was published previously under the same title (Ibrahim Nana and Susan K. Starnes, IFC Note, September 2020).

Chapter 9, *How the Tourism Sector in Emerging Markets is Recovering from COVID-19*, was published previously under the same title and was expanded and updated for this report (Nisachol Mekharat and Nouhoum Traore, EM Compass Note 95, IFC, December 2020).

Chapter 10, *COVID-19 and the Insurance Industry: Why a Gender-Sensitive Response Matters*, was published previously under the same title (Susan Holliday, Prapti Sherchan, and Sarah Ebrahimi, IFC Note, June 2020).

Chapter 11, *Childcare in the COVID-19 Era—A Guide for Employers*, was published previously under the same title (Rudaba Nasir, Sherrilee Ann Le Mottee, and Anita Gurgel, IFC Note, April 2020).

Chapter 12, *COVID-19 and Gender-Based Violence: Workplace Risks and Responses—A Guidance Note for Employers*, was published previously under the same title (Shabnam Hameed, IFC Note 90, July 2020).

For more information about IFC and its response to COVID-19, please visit:
<https://www.ifc.org/covid-19>

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