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The Great Reversal

Tommy Chrimes, Bram Gootjes, M. Ayhan Kose, and Collette Wheeler*

Abstract: The shock of the pandemic and subsequent overlapping crises has led to a reversal in development by exacerbating the challenges facing the most vulnerable 75 economies eligible for concessional loans and grants from the World Bank’s International Development Association (IDA). Over 2020-24, per capita incomes in half of IDA countries—the largest share since the start of this century—have been growing more slowly than those of wealthy economies. One out of three IDA countries is poorer than it was on the eve of the pandemic. Poverty remains stubbornly high, hunger has surged, and, amid fiscal constraints and rising investment needs, the development outlook could take an even bleaker turn—especially if weak growth prospects persist. IDA countries have several important demographic and resource advantages that could—if leveraged effectively—help close development gaps. Reaping the benefits of their advantages and meeting investment needs will require them to undertake comprehensive policy measures to bolster fiscal and monetary frameworks, enhance human capital development, and improve the quality of institutions. These policies should be complemented with significant and consistent international financial support as well as strong cooperation on global policy issues.

JEL Classification: E6; F00; I00; J11; O1; Q00

Keywords: International Development Association; IDA; stagnation; convergence; development gap

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I. Introduction

The 75 countries eligible for low-interest loans and grants from the World Bank’s International Development Association (IDA) have been hit hard by the global crises since 2020.¹ A major reversal in development is underway for these countries, which are among the poorest and most vulnerable in the world. As a group, these countries are struggling through their weakest half-decade of growth since the early 1990s. A third have lower per capita incomes now than in 2019. Amid stunted recoveries, more than half have seen income gaps widen relative to advanced economies since the pandemic. Progress on poverty reduction has stalled. IDA countries have seen a surge in food insecurity. Many are in debt distress. Most are also particularly exposed to the growing impacts of climate change. Fiscal positions are strained while investment needs are rising.

IDA countries were already facing a raft of development challenges before the succession of crises of the past four years. But these crises, including the COVID-19 outbreak, multiple conflicts, a sharp increase in global inflation, elevated interest rates, and tighter global financial conditions, have compounded challenges, putting key development objectives further out of reach and leaving IDA countries particularly vulnerable to new shocks.

Yet progress is still possible—not least because these countries have significant untapped economic potential. Many IDA countries have rich natural resources and favorable demographics; leveraging these advantages effectively will require careful and concerted effort. Implementing ambitious policy packages has the potential to make a significant difference, supporting investment accelerations to underpin growth, as has happened in many countries in the past. The challenge for national policy makers is to pursue policies that can capitalize on the economic advantages of these countries to drive strong and sustainable growth. In doing so, they will also need the support of the global community.

Against this background, this study addresses the following questions. First, what are the key economic features of IDA countries? Second, how have the overlapping global crises of the past four years affected these economies? Third, what are the near-term economic prospects and risks for IDA countries? Fourth, what are the key national policy interventions that can promote growth and advance development objectives in these economies? And, how can the global community best support IDA economies?

This study approaches the 75 IDA countries as a group, while acknowledging the considerable economic diversity among them. It makes five unique contributions. First, it considers the key features of IDA countries in the context of macroeconomic developments in the years up to 2020. Second, it presents the first comprehensive review of developments since the COVID-19 pandemic and subsequent crises, documenting how these have added to the challenges facing IDA countries. It highlights the significant output losses IDA countries have suffered and the lack of progress in poverty reduction and in the convergence of per capita incomes with the advanced economies. Third, it assesses near-term prospects for these economies and examines the important risks they face. Fourth, it considers several factors which could potentially play in these economies’ favor. Finally, it outlines the national and global policy interventions needed to help IDA countries tackle the challenges confronting them and capitalize on their comparative advantages.

Most IDA countries have low per capita income levels: this is a primary determinant of eligibility for IDA assistance (below \$1,315 in fiscal year 2024). IDA also supports some countries that are above this income threshold but lack the creditworthiness needed to borrow from the International

¹ IDA, founded in 1960, aims to reduce poverty by providing zero to low-interest loans and grants to the world’s most vulnerable countries, for programs that boost economic growth, reduce inequalities, and improve people’s living conditions.

Bank for Reconstruction and Development (IBRD), IDA's sister institution serving middle-income and credit-worthy low-income countries. High incidences of extreme poverty and considerable, longstanding development challenges are common themes among IDA countries, although there are also important differences between low-income countries (LICs), fragile and conflict-affected situations (FCS), and small states. Common characteristics include weak institutions, limited fiscal space (with modest revenue capacity and high debt vulnerabilities), persistent current account deficits, heavy reliance on external financial flows, exports concentrated in a handful of products, shallow financial markets, and sizeable human capital and infrastructure needs.

Growth slowed across IDA countries in 2020 to 0.3 percent, the lowest annual rate recorded since the early 1980s. Within this average, there were contractions of output in IDA's FCS and also, at a double-digit average rate, in IDA's small states. IDA countries have also recorded a much weaker rebound in per capita income growth since 2021 than other EMDEs. Average headline inflation in IDA countries rose further in 2020-22 than in other EMDEs, peaking in mid-2022, with rising food prices contributing to increased hunger.

The crises of the past four years have taken a massive toll on IDA countries. Output fell 4 percent below pre-pandemic trends in 2020 and output losses are projected to reach 5.7 percent in 2024. By the end of 2024, IDA countries are expected to have experienced the weakest half-decade of growth since the early 1990s. There is set to be almost no change in their per capita income growth differential with advanced economies on average over 2020-24, and half of IDA countries—the largest share since the start of this century—will have been growing more slowly in per capita terms on average than wealthy economies over that period. This is widening the income gap between these countries and advanced economies.

Moreover, progress on poverty reduction has stalled—the pandemic erased three years of progress in terms of reducing the extreme poverty rate. Poverty is expected to fall only very gradually out to 2030. It is estimated that 26.5 percent of the population in IDA countries was living in extreme poverty in 2023, over eight times the proportion in the rest of the world. About 651 million people in IDA countries faced food insecurity in 2023, nearly double the 2019 number and 92 percent of the global total.

A modest increase in growth in IDA countries is expected during 2024-25, but overall, activity is projected to remain subdued relative to the 2010-19 average growth rate. Inflation is forecast to moderate further but to remain higher than in other EMDEs and above IDA countries' pre-pandemic average. While there are signs of a tentative recovery in trade and investment growth, they are expected to remain muted relative to development needs. In sum, growth in the next few years is expected to be insufficient to significantly improve the development trajectory of IDA countries.

The key risk to the outlook for IDA countries is that the current stagnation becomes more protracted. If weak income growth persists, deeper reversals in progress could occur. IDA countries are especially susceptible to natural disasters associated with climate change. Fragility and conflict-affected IDA countries are particularly vulnerable to new shocks given their weak fundamentals. Risks are magnified by the highly challenging external environment: weaker-than-expected global growth, an escalation in geopolitical tensions, fragmentation of trade and investment networks, or an extended period of tighter global financial conditions could further darken prospects for IDA countries.

While IDA countries face a wide range of challenges, there are also factors in their favor. First, progress is possible. Since 2000, a dozen countries have successfully graduated from IDA. Large economies such as China, India, and the Republic of Korea were once IDA countries. Second, many IDA countries have rich natural resources and favorable demographic profiles, although

both advantages need to be managed effectively for their potential to be realized. IDA countries possess abundant supplies of various commodities, with many having substantial reserves of minerals critical to the global energy transition. Working-age populations in IDA countries are expected to expand over the next half-century, unlike in the rest of the world. If these advantages can be harnessed, they should significantly benefit economic growth and development. Third, experience shows that it is possible to accelerate investment growth and deliver transformative structural change by undertaking comprehensive policy reforms.

To confront these challenges and risks effectively, IDA countries need to implement well-designed and ambitious policies, focused particularly on boosting investment growth. These should include policies to durably improve fiscal and external imbalances, secure macroeconomic stability, and advance an array of structural reforms—including to strengthen institutions, better manage natural resources, boost human capital, enhance gender equality and youth inclusion, and combat climate change. Implementation of these policies has the potential to spark an extended period of strong investment growth, which is necessary to meet substantial investment needs, promote income growth, accelerate poverty reduction, and address infrastructure gaps (including in relation to climate change and digital transformation).

Strong and sustained financial support from the international community is vital to help contain the risks IDA countries face, address crises that occur should risks materialize, and unlock opportunities. It is also critical that the global community redoubles international cooperation efforts, particularly in support of IDA countries, on several fronts: to counter the impacts of climate change via coordinated mitigation and adaptation efforts; to combat fragmentation and support international trade and investment, as a significant growth engine for many IDA countries; to ensure more timely and effective debt restructurings for developing countries which need them; and to buttress IDA countries’ domestic development efforts with a view to building shared and sustainable prosperity. Effective global support and cooperation are essential for IDA countries—and progress in IDA countries is critical for long-term global peace and prosperity.

II. Characteristics of IDA countries

Most IDA countries have notably low income levels. A primary criterion for IDA assistance eligibility is a country’s relative poverty. Thirty-one of IDA’s 75 countries have per capita Gross National Income (GNI) below \$1,315.² Other IDA countries surpass this income threshold but lack the creditworthiness to borrow from the IBRD.³ Among IDA countries, one-third are classified as low-income countries (LICs).⁴ The remaining two-thirds predominantly comprise lower-middle-income countries (LMCs). A few IDA-eligible small states are categorized as having higher income levels (figure 1.A).

With 1.9 billion inhabitants, IDA countries are home to almost one-quarter of the global population—a share that is growing. Geographically, more than half of IDA countries are in Sub-Saharan Africa, while nearly 20 percent are in East Asia and the Pacific, where many are small states (figure 1.B). In South Asia, all countries except India are IDA countries. Despite their significant combined population, IDA countries collectively account for just three percent of global

² IDA uses this threshold of \$1,315 for the fiscal year ending June 30, 2024. Some IDA-eligible countries, such as Nigeria and Pakistan, are also creditworthy for some IBRD borrowing; these are referred to as “blend” countries, and they are also among the 75 countries currently eligible for IDA resources and considered in this study. Table A.1 provides a list of classifications of IDA countries.

³ In 2023, per capita income in IDA countries ranged from \$222 in Burundi to \$30,899 in Guyana. Per capita income in Guyana has surged in recent years, from \$6,309 in 2019, owing to the extraction of recently discovered oil. Across EMDE regions, Sub-Saharan Africa has the lowest income per capita income, averaging \$1,352, while Europe and Central Asia has the highest, at \$2,273.

⁴ All LICs, with the exception of the Democratic People’s Republic of Korea, are IDA-eligible countries.

output (figure 1.C).⁵

Over 70 percent of the world’s extreme poor reside in IDA countries, with nearly 500 million people living below the extreme poverty line of \$2.15 per person a day in 2023. This level of poverty affected, on average, 26.5 percent of the population in IDA countries in 2023, a rate over eight times higher than the average of 3.1 percent observed in the rest of the world. Most of those living in extreme poverty are in Sub-Saharan Africa (figure 1.D).

Moreover, many IDA countries are characterized by heightened vulnerabilities attributable to institutional fragility, social unrest, and conflict. Thirty-three IDA countries are classified as fragile or conflict-affected, with 324 million individuals living in extreme poverty within this group. In total, over 35 percent of the population in IDA’s fragile or conflict-affected states were estimated to have endured extreme poverty in 2023, while 43 percent of the people in IDA’s LICs live in extreme poverty. A significant number of IDA countries are categorized as LICs and FCS.

IDA countries engage in less international trade, relative to GDP, than other EMDEs (figure 2.A). Specifically, trade-to-GDP ratios averaged about 66 percent over 2021-22 in IDA countries, less than the 82 percent of GDP in other EMDEs. This gap is even more pronounced in IDA’s LICs, where trade openness averaged only 57 percent of GDP. Conversely, IDA’s small states demonstrate significantly higher levels of trade openness, with an average exceeding 93 percent of GDP.

Output and exports of IDA countries tend to be concentrated in a narrow range of products. On average, about 40 percent of goods exports from IDA countries are from a single sector, well above the 27 percent average in other EMDEs. As documented in Section VII, most IDA countries have significant natural resources and rely heavily on income from commodities, with 52 IDA countries classified as commodity exporters.⁶ However, IDA’s commodity importers and exporters alike rely heavily on food and fuel imports, highlighting the vulnerabilities and challenges they face from the volatility of commodity prices. Many IDA countries, particularly small states, attract substantial tourist flows, with over half of IDA small states classified as tourism-reliant.⁷

Vulnerability to climate change-related and other natural disasters is a pressing concern for IDA countries. Climate change in particular poses growing threats to lives, livelihoods, and economic stability (figure 2.B; Casey, Fried, and Goode 2023). Because of climate change, the frequency and severity of natural disasters are on the rise worldwide, with people in IDA countries bearing the brunt of extreme weather events (figure 2.C).

Economic losses from natural disasters in these countries are substantial and have risen significantly over time, averaging 1.3 percent of GDP over 2011-2022—considerably higher than in other EMDEs (figure 2.D). LICs and small states, often with limited resources, are particularly vulnerable to the effects of climate change, including droughts, floods, and rising sea levels (Jafino et al. 2020; Kenworthy, Kirby, and Vorisek 2023). Climate change also disproportionately impacts the agricultural sector, which is crucial for many IDA countries. Beyond economic losses, extreme weather events can significantly affect food security and livelihoods, especially in FCS (FAO et al. 2023).

Human development indicators show significant progress in IDA countries in recent decades. Life

⁵ LICs and FCS contribute a mere 0.5 percent and 1.1 percent to global GDP, respectively. IDA’s small states have a marginal share of global output, while IDA’s commodity exporters collectively account for 1.9 percent of global GDP.

⁶ Among IDA countries, 11 are energy exporters, with 10 primarily exporters of oil; 17 are metal exporters; while 28 are categorized as commodity exporters because of sizable shares of agricultural exports.

⁷ Tourism-reliant countries are defined as those with inbound tourism expenditure as a share of GDP during 2015-19 above the 3rd quartile of shares in all EMDEs, based on the UN World Tourism Organization data.

expectancy, for example, rose from 58 to 65 years between 2000 and 2021. Maternal mortality rates decreased by about half, from one in every 188 live births in 2000 to one in 332 in the latest data (2020). Nevertheless, key indicators also reveal persistent gaps with other EMDEs (figures 3.A and 3.B). In IDA countries, life expectancy is approximately seven years lower than other EMDEs, maternal mortality rates are five times higher, and malnutrition and child mortality rates remain high. IDA countries also lag in access to physical and digital infrastructure: although access to basic sanitation, electricity, and the internet has improved substantially in IDA countries since 2000, it is still much lower than in other EMDEs (figure 3.C).

IDA countries generally have weaker institutions than other EMDEs (figure 3.D). This institutional weakness is broad in scope, including tenuous legal capacity for protecting property rights, the persistence of political violence, state and market failures, weak governance, and corruption. Moreover, the presence of important natural resource endowments in many IDA countries—a potential boon—can impede economic diversification while breeding corruption and conflict (Gill et al. 2014; World Bank 2017). These issues heighten country risk profiles, hindering capital inflows. Limited institutional capacity also impacts data availability and quality, complicating policy design and implementation.

In the typical IDA country, the informal economy constitutes a sizable share of GDP—36 percent over 2010-20, compared with 29 percent in other EMDEs (figure 3.E). This widespread informality constrains government revenue mobilization efforts, which in turn hampers the government’s capacity to deliver key public services (figure 3.F; Gaspar, Jaramillo, and Wingender 2016). In 2021, tax revenue in IDA countries averaged only 11.9 percent of GDP (much lower than the 17.1 percent in other EMDEs), significantly limiting the resources available for public investment and social programs. Consequently, spending on critical sectors like health and education remains notably lower than in other EMDEs, averaging 1.6 and 3.6 percent of GDP, respectively, over 2000-20 across IDA countries—significantly below the 2.9 and 4.1 percent in other EMDEs.

In many IDA countries, sizable and persistent twin (fiscal and current account) deficits prevail. These deficits are often accompanied by elevated levels of debt. Countries rely heavily on external sources—including remittances—to meet their financing needs. Moreover, domestic financial sectors in these economies tend to be underdeveloped, with limited capacity for conducting basic intermediation transactions linking savers and borrowers. Shallow and illiquid financial systems, lacking diverse instruments, leave IDA countries ill-equipped to absorb and mitigate the impact of adverse shocks (Sahay et al. 2015).

III. Recent developments amid overlapping crises: 2020-23

III.1 Output growth

Growth in IDA countries fell to 0.3 percent in 2020—the slowest pace recorded since the early 1980s—as disruptions to domestic activity associated with the COVID-19 pandemic were worsened by sharply lower external demand, a collapse in tourism activity, and weaker capital flows (table 1; figures 4.A and 4.B). Falling prices of industrial commodities—particularly oil—also hampered activity in some of IDA’s commodity exporters. The initial impact of the pandemic varied considerably among groups of IDA countries: in IDA’s LICs, growth slowed to 1.5 percent in 2020—about one third its 2010-19 average pace; in IDA’s FCS, output contracted by 1.5 percent, reflecting these countries’ weak state capacity and limited fiscal space; hardest hit were IDA’s small states, with output shrinking by 12.4 percent in 2020 as international travel and

tourism collapsed.⁸

In 2021, IDA countries recorded a much weaker rebound from the pandemic than other EMDEs. Growth in IDA countries strengthened from 0.3 percent in 2020 to 4.7 percent in 2021, supported by improvements in global trade and commodity prices. In other EMDEs, by contrast, growth rose to 7.3 percent in 2021, after a 1.5 percent contraction in 2020, as economic reopening and vaccine deployment in some larger economies supported a recovery in consumer and business confidence, lifted services activity, and buttressed financial market sentiment.⁹ Although growth in IDA's small states rebounded to 6.2 percent in 2021, this was still weaker than the recovery in other EMDEs, as services trade remained depressed by continuing travel restrictions.¹⁰ In IDA's LICs and FCS, the recovery was weaker than the IDA average, with growth reaching only 4.1 percent in LICs and 2.4 percent in FCS. This weaker recovery reflected very low vaccination rates, limited policy support for demand and activity, and a deterioration in security in many countries (World Bank 2022a).¹¹

IDA countries' growth in 2022-23 disappointed further, slowing to 4.2 percent in 2022 and an estimated 3.7 percent in 2023. This performance was similar to other EMDEs, but well below IDA countries' average growth of 4.8 percent over 2010-19. The slowdown in 2023 was largely due to weakening domestic demand growth amid sharp rises in the cost of living, tight financial conditions, and worsening conflict, violence, and instability in some cases. Net exports contributed positively to growth in 2023, but owing to import compression reflecting weak domestic demand rather than to burgeoning exports.

Although the current estimate of growth in IDA countries in 2023 is above the January estimate, for almost half of IDA's low-income and fragile economies growth estimates have been revised down. Pervasive violence and political instability exacerbated the challenging economic and humanitarian situations in many of these countries last year, weighing on growth.¹² Additionally, extreme weather events have had catastrophic consequences in several IDA countries, especially in LICs in the Sahel region, which is warming faster than the global average and is also particularly susceptible to desertification (World Bank 2022b).

III.2 Trade and investment growth

Trade and investment growth were both volatile over 2020-23 in IDA countries. After trade in IDA countries contracted 3.3 percent in 2020—the steepest fall since 1981—it experienced a robust rebound over 2021-22 (figure 4.C). However, this rebound was short-lived, with trade growth slowing to only 0.5 percent in 2023, well below the 6.3 percent average over 2000-19, owing to the weak external environment. Investment growth in IDA countries followed a similar pattern: it slumped to 1.4 percent in 2020, the lowest in over a decade (figure 4.D). There was a strong cyclical rebound in 2021 but investment growth was subdued in 2022 and 2023, at about three percentage points a year below the 2000-19 average, reflecting the multiple crises of the past four

⁸ The initial impact of the pandemic also varied considerably among IDA countries. Output fell by nearly one-third in the Maldives, one-quarter in Saint Lucia, and one-fifth in Cabo Verde in 2020, as tourism plummeted. But growth in 2020 was relatively resilient in more diversified economies, such as Ethiopia and Bangladesh. In Guyana, idiosyncratic factors, such as the discovery of crude oil, resulted in a pronounced pick-up in growth in 2020.

⁹ In some IDA countries, such as Honduras, the rebound in growth in 2021 also reflected recoveries from the previous year's hurricanes.

¹⁰ Growth in 2021 rebounded more strongly in some tourism-dependent IDA countries, such as the Maldives, as a result of earlier economic reopening.

¹¹ A marked deterioration in security and/or political stability triggered double-digit contractions in output in 2021 in some IDA countries, including Afghanistan and Myanmar.

¹² For instance, Sudan faced significant deterioration, with a resumption of conflict damaging the country's industrial base, while the decline was pronounced in Niger, mostly due to a July coup and the subsequent international sanctions.

years (World Bank 2024a).

III.3 Inflation and food insecurity

The recovery from the pandemic was impeded by surging inflation. Headline inflation in IDA countries increased significantly from a higher base than in other EMDEs, reaching in 2022 its highest annual rate since 2008 (figure 5.A). Russia's invasion of Ukraine in February 2022 precipitated a significant upswing in energy prices and pushed global food prices to all-time highs. This inflationary spike eroded food affordability in many IDA countries (figure 5.B). Currency depreciations in a number of countries added to inflationary pressures.

The effects of inflation are not felt equally, including within IDA countries. Inflation tends to increase poverty and inequality (Gill and Nagle 2022). Low- and middle-income households are generally more vulnerable to high inflation than wealthier households, as a result of differences in their assets, incomes, and consumption baskets. The very poorest, who often have limited wage income and assets and rely, for example, on subsistence farming, will nevertheless still be affected by inflation.

Russia's invasion of Ukraine had pronounced impacts on IDA countries, not only through higher commodity prices but also because of their dependence on energy and food imports from the two countries. Although elevated global commodity prices benefited some exporters of energy and metals, increases in energy and fertilizer costs largely offset the benefits of higher prices for agricultural exporters (figure 5.C). Moreover, the surge in commodity prices weighed on private consumption in IDA countries due to high food and fuel shares in their consumption baskets. As a result, the recovery stemming from a gradual waning of the pandemic and increased export earnings was muted in IDA countries, as rapidly climbing costs of living dampened domestic demand. These developments led to increased hunger: 651 million people in IDA countries faced food insecurity in 2023, almost double the number in 2019 (figure 5.D).

III.4 Fiscal balances and public debt

Public debt had already built up significantly in IDA countries prior to the pandemic, and increased budget deficits since 2020 have exacerbated debt burdens (figure 6.A; Kose, Ohnsorge, and Sugawara 2023). A sizable share of government debt accumulation by IDA countries over 2010-23 occurred before the pandemic, fueled by persistent budget deficits. The fiscal support packages implemented during the pandemic, though smaller than in other EMDEs owing to IDA countries' pre-existing fiscal constraints, nevertheless led to a sharp increase in deficits, to 4.5 percent of GDP on average in 2020 (a rise of about two percentage points from 2019), and persisting at 4.2 percent of GDP as of 2023. There has been much less fiscal adjustment since 2020 in IDA countries than in other EMDEs, where fiscal balances edged closer to pre-pandemic averages in 2022-23.

Widening fiscal deficits have led to a sharp increase in public debt, relative to GDP, in IDA countries. By 2023, the median government debt-to-GDP ratios in IDA countries had risen by 6.7 percentage points since 2019—about three times the increase in other EMDEs—to more than 50 percent of GDP (figure 6.B). Particularly striking is the escalation of public debt in LICs, up by about 12 percentage points of GDP between 2019 and 2023. The recent rise in debt-to-GDP ratios has been widespread across IDA countries, occurring in nearly 70 percent of them between 2019 and 2023. The rise in government budget deficits in response to the pandemic reversed fiscal consolidation plans across IDA countries: initial forecasts back in 2018 had in fact projected a decrease in government debt from 50 percent of GDP to 42.3 percent in 2023 in the median IDA country.

Elevated costs of borrowing have magnified debt challenges. The synchronized increases of policy

interest rates in many advanced economies in response to high inflation led to much tighter global financing conditions—with significant increases in borrowing costs for IDA countries. The median sovereign bond spread (the difference between the yield on U.S. Treasury securities and what a country pays on an equivalent issuance) for IDA countries rose from 4.7 percentage points in 2019 to a peak of 12.4 percentage points in May 2023, before falling back to 7.8 percentage points in March 2024. This contrasts with the relative stability of sovereign spreads for other EMDEs in this period (figure 6.C). IDA countries with weak credit ratings have been particularly marginalized in global capital markets.¹³ Prohibitively high financing costs have shut out many IDA countries from international capital markets and led to minimal bond issuance over the past two years, the longest issuance drought since the global recession in 2009 (figure 6.D; Kenworthy, Kose, and Perevalov 2024).

Fiscal strains in IDA countries are also evident in the rising proportion of government revenues allocated to interest payments. The combination of weak growth, high government debt, and elevated interest rates has led to a sharp increase in net interest payments relative to government revenues in IDA countries, to 7.3 percent in 2023. This represents a surge of 3.3 percentage points from pre-pandemic averages—a much sharper increase than the 1.7 percentage points observed in other EMDEs (figure 6.E). Increased interest payments are diverting crucial resources from essential government outlays on education, health, and infrastructure, which already lag spending in other EMDEs, thus further limiting long-term growth prospects. In some heavily indebted IDA countries, interest payments now surpass historical average spending on healthcare, underscoring the severity of financing problems and their detrimental effects on public services and development initiatives.

The share of IDA countries in, or at risk of, debt distress has increased sharply in recent years. More than half of IDA countries assessed in debt sustainability analysis (DSA) conducted by the World Bank and the IMF—34 out of 67—are either in acute debt distress or at high risk thereof (figure 6.F). This share was less than one-quarter in 2013. It rose significantly in the years before the pandemic and in 2021.

III.5 External balances

Besides fiscal pressures, external imbalances constitute significant challenges for IDA countries. The median IDA country had a current account deficit of 4.8 percent of GDP in 2023, markedly higher than the 1.6 percent of GDP deficit recorded in other EMDEs (figure 7.A). In IDA's LICs, current account deficits are substantial, at 6.0 percent of GDP. After widening during 2020-22, primarily owing to soaring import bills driven by higher commodity prices, deficits are not anticipated to narrow significantly over the projected horizon. In IDA's FCS, current account deficits are expected to widen sharply, reaching 4.6 percent of GDP by 2025.

Borrowing conditions have worsened as financing needs have increased, to the detriment of fiscal positions. Median gross public financing needs, calculated as the sum of fiscal deficits and short-term government debt stocks, rose by 2.3 percentage points between 2019 and 2023, to 7.9 percent of GDP (figure 7.B). Several IDA countries—including Burundi, Fiji, The Gambia, Ghana, Kenya, Malawi, Mozambique, Pakistan, Togo, and Zambia—now face financing needs surpassing 10 percent of GDP, underscoring the fiscal pressures these countries face.

Foreign capital inflows have historically played a crucial role in financing in IDA countries, but they dipped in 2022. Net portfolio investment inflows to IDA countries averaged 0.4 percent of GDP between 2019 and 2021, but there was a net outflow of 1.1 percent of GDP in 2022. Foreign

¹³ Among IDA countries, 15 have weak credit ratings for sovereign bonds: Cameroon, Democratic Republic of Congo, Republic of Congo, Ethiopia, Ghana, Lao People's Democratic Republic, Maldives, Mali, Mozambique, Niger, Nigeria, Pakistan, Solomon Islands, Sri Lanka, and Zambia.

direct investment (FDI) flows also declined, from 2.0 percent of GDP in 2019 to 1.7 percent in 2022, continuing a trend since the 2009 global recession.¹⁴ Excluding remittances, net capital inflows to IDA countries (relative to GDP) have been volatile over the past decade. Although remittances have risen (and stayed steady) in recent years, other capital flows have been volatile around a gradually declining trend, almost halving from their 2010-13 average. In 2022, total capital flows were the lowest since 2008, no doubt partly owing to the recent tightening of financial conditions (figure 7.C). IDA countries also tend to have lower levels of reserves than other EMDEs (figure 7.D).

IV. Near-term growth prospects: 2024-25

IV.1 Output growth

GDP growth in IDA countries is forecast to strengthen in 2024-25 but to remain weaker than its average pace in the decade before the pandemic. Growth is projected to accelerate from an estimated rate of 3.7 percent in 2023 to 4.3 percent this year and 4.5 percent in 2025—outpacing other EMDEs in both years but remaining weaker than the 2010-19 average in IDA countries (figure 8.A). This pickup is unlikely to be sufficient to make significant progress on poverty reduction.¹⁵

The projected pick-up in growth in 2024-25 is driven largely by domestic and cyclical factors, with demand assumed to strengthen as inflationary pressures recede, interest rates decline, and financial conditions become more accommodative (figure 8.B). The contribution from net exports to growth is expected to moderate as firming export growth is offset by a rebound in imports after last year's contraction. These forecasts assume that security challenges in several IDA countries moderate; that conflicts elsewhere do not escalate; that the magnitude of any natural disasters is not unusual; and that no new debt crises emerge.

The outlook continues to diverge across IDA countries (figure 8.C). After pronounced weakness in 2023, growth in IDA's LICs is expected to pick up to an average pace of 5.1 percent a year in 2024-25, 0.5 percentage point lower than January forecasts. Growth in IDA's FCS is also forecast to increase, but only to an average pace of 3.7 percent a year in 2024-25—well below overall growth in IDA countries and a 0.4 percentage point downgrade from January. Growth in IDA's small states, after picking up sharply in 2021-22 and moderating last year, is projected to slow further, from 4.5 percent in 2023 to 4.1 percent a year in 2024-25, broadly in line with the January forecast, as global tourism and travel stabilize at the pre-pandemic levels reached this year (UNWTO 2024).

Downgrades to growth forecasts since January are concentrated in IDA's poorer and more fragile economies. There have been downward revisions to 2024 growth in about 75 percent of IDA's LICs and 60 percent of IDA's FCS, in several cases reflecting delays in expected improvements to security and stability after recent increases in conflict and violence.¹⁶ The

¹⁴ The decline in FDI is a cause for concern. However, equally troubling is the nature and sectoral distribution of FDI in several IDA countries. In some IDA countries, FDI has primarily targeted extractive sectors, resulting in limited backward linkages. This diminishes the direct impact of FDI on job creation and wages, while also constraining its potential spillover effects on domestic enterprises (Saurav, Lia, and Singh 2020; IMF 2023a).

¹⁵ Other recent World Bank publications present a detailed discussion on the outlook for Sub-Saharan Africa and South Asia, both large IDA regions. They report rising GDP growth over the near term but also note that growth rates will remain lower than pre-pandemic averages, highlighting the weak pass-through from growth to poverty reduction in Africa and modest job creation trends in South Asia (World Bank 2024b, 2024c).

¹⁶ In the forecast for 2024-25, notable performers include Guyana, Rwanda, and Senegal. Conversely, Haiti, Myanmar, and Sudan are anticipated to fare particularly poorly due to ongoing conflicts and violence.

current El Niño weather pattern could bring further damage to agricultural output, particularly in East Asia and the Pacific, Latin America and the Caribbean, and Sub-Saharan Africa (FAO 2023; World Bank 2024a).

IV.2 Trade growth

Improvements in global trade growth are anticipated to support activity in IDA countries in the near term (figure 8.D). Global trade has shown tentative signs of firming in recent months alongside the growth of industrial production (Kose and Mulabdic 2024). The contraction in global goods trade appears to have bottomed out, with volumes rising at the start of 2024. These developments are expected to support a modest pickup in trade growth as the services recovery tops out. Export growth in IDA countries is expected to edge up as the recovery in global demand for goods gathers pace. Also, in some IDA countries, the pick-up in export growth reflects a recovery in the supply of key commodities as local conditions improve, production bottlenecks ease, and fertilizer prices fall. In some of IDA’s FCS, a projected resumption of trade with neighboring countries is a significant factor.

IV.3 Inflation

Inflation is expected to continue declining in IDA countries but to remain above its pre-pandemic average. Median headline inflation in these countries, on a 12-month basis, has fallen from its July 2022 peak of almost 11 percent to about 5 percent in recent months (figure 8.E). Nevertheless, of the 38 IDA countries that report monthly consumer price indexes, 18 continued to experience rising inflation in early 2024 (figure 8.F). About one-fifth of these 38 countries have double-digit inflation, in many cases owing to currency depreciation and elevated food prices. Despite the projected decline, inflation in IDA countries overall is anticipated to remain about 1.5 percentage points above its 2015-19 average over the next two years and about one percentage point above projected inflation in other EMDEs. Cumulative price rises will continue to be felt by many households in IDA countries, making it more difficult for them to recover the real income losses of recent years.

V. Output losses, growth, convergence, and poverty

V.1 Output losses

Output losses relative to pre-pandemic trends have been substantial in IDA countries. Output in IDA countries fell 4 percent below pre-pandemic trends in 2020; this gap widened to 5.3 percent by 2023 and is projected to reach 5.7 percent in 2024 and 5.9 percent in 2025. Among IDA country groups, the steepest initial output losses, by far, occurred in small states in 2020, and these have been only partly recovered, with gaps relative to the pre-pandemic trend set to remain in double digits in percentage terms in 2024-25. In IDA’s LICs, output losses were initially smaller, but they have risen (figure 9.A). Cumulative output losses in IDA countries since the onset of the pandemic have been substantial, especially for IDA’s small states (figure 9.B). IDA’s FCS have also seen larger cumulative output losses than IDA countries overall, while losses have been more muted in LICs.

V.2 Growth

The recovery in IDA countries is projected to remain weaker than in previous post-recession rebounds, including the recovery from the 2009 global recession, and also weaker than in other EMDEs. The weakness of the recovery from the 2020 global recession relative to earlier recoveries is largely attributable to the compounding effects of the unusual overlapping crises of recent years alongside longer-term scarring from the pandemic (figure 9.C). In turn, output in IDA countries is set to continue following a lower path than before 2020. These countries entered the pandemic-

induced global recession in 2020 less well-prepared and with larger vulnerabilities than when they entered the global recession in 2009 (World Bank 2020a). Many IDA countries were particularly exposed to the impact of the pandemic because of weak healthcare systems, heavy reliance on tourism, higher debt vulnerabilities, exposure to financial disruptions, and/or high dependence on energy and other commodity exports. Overall, in 2020-24, IDA countries are projected to experience the weakest half-decade of growth since the early 1990s (figure 9.D).

The recovery from the global recession of 2020 is also expected to remain weak in per capita income terms. GDP per capita in IDA countries is projected to grow by an annual average of 1.2 percent over 2020-24, less than half its 2010-19 average annual growth rate of 2.5 percent (table 2). Some of the most vulnerable IDA countries are expected to fall further behind, with per capita income for 2025 projected to remain below its 2019 level in nearly one third of IDA countries, including 42 percent of LICs and half of FCS (figure 10.A).

V.3 Convergence

Catch-up with advanced-economy per capita income is projected to stall in IDA countries over the period from 2020-24. Per capita income growth in IDA countries over 2020-24 (averaging 1.2 percent a year) is expected to be almost identical to the rate in advanced economies, stalling the catch-up process in these countries. Indeed, over 2021-24, the period after the 2020 global recession, IDA countries are projected to see lower average per capita income growth than advanced economies, with earlier gains for IDA's FCS slipping back notably (figure 10.B). The reversal is also broad-based: over 2020-24, average per capita income growth is expected to trail that of advanced economies in half of IDA countries (figure 10.C).

In IDA countries, this comes on the heels of slowing progress over the last two decades in closing these gaps (figure 10.D). In contrast, other EMDEs are expected to continue to catch-up with advanced economies, albeit at a slower pace than the 2010-19 average, with per capita income growth projected to be higher in other EMDEs than in IDA countries, as it has been every year from 2021 (figures 10.E and 10.F).

V.4 Poverty

IDA countries' growth will remain insufficient to tackle key development challenges, with the pace of reduction in extreme poverty slowing and lagging established goals. Global extreme poverty rates declined over the three decades prior to the pandemic, driven in large part by strong catch-up in China and India as they recorded sustained high per capita income growth rates. However, the decline in poverty has slowed, including in IDA countries. Although the global rate of extreme poverty is expected to continue falling, the decline is projected to slower than in the decades before the pandemic. Consequently, the goal of reducing global poverty from its current rate of about nine percent to three percent of the world's population by 2030 appears out of reach (World Bank 2022b). Moreover, extreme poverty is becoming increasingly concentrated, particularly in Sub-Saharan Africa and in FCS.¹⁷

The pandemic reversed about three years of progress in extreme poverty reduction in IDA countries. Extreme poverty—the number living in extreme poverty in proportion to the global population—rose by 0.8 percentage point in 2020, unraveling about three years of previous progress. Weaker per capita income growth prospects will make progress harder in the forecast period. Projected near-term growth is insufficient to unlock major progress in reducing poverty (World Bank 2024c).

¹⁷ In Sub-Saharan Africa, which accounts for 52 percent of IDA countries, the share of the world's poor has grown, from 14 percent in 1990 to 62 percent in 2023.

Even if growth exceeds expectations, its pass-through to household consumption expenditures in many IDA countries, particularly in Sub-Saharan Africa, is likely to be relatively muted, stifling the potential boost to household welfare and poverty reduction (Wu et al. 2024). By 2030, an estimated 21.2 percent of the population in IDA countries will still be living in extreme poverty (figure 11.A). Although the average extreme poverty rate in IDA countries is estimated to have returned to its 2019 level in 2022, and although it appears to have resumed a modest downward trend, for key country groups within IDA, including LICs, FCS, and small states, the poverty rate remained higher in 2023 than in 2019.¹⁸

The absolute number of people living in extreme poverty in IDA countries is now higher than in 1990, and progress reducing this number over the remainder of the decade is expected to be modest. Globally, extreme poverty has declined sharply, from about 2.0 billion in 1990 to 691 million people in 2023 (figure 11.B). China and India account for 1.1 billion of this reduction. In IDA countries, however, the number of people living in extreme poverty has remained stubbornly high. In 1990, an estimated 473 million people in IDA countries lived in extreme poverty; by 2023, this had risen to 498 million. This figure is projected to fall moderately by 2030, to 463 million. In the Middle East and North Africa region, extreme poverty is expected to increase between 2023 and 2030.

VI. Risks to the outlook

IDA countries are at risk of a lost decade of development. The overlapping crises of recent years have caused progress toward key development objectives in IDA countries shudder to a halt, or even reverse. A more prolonged reversal in income convergence with both advanced economies and with other EMDEs would have profound implications. With heightened vulnerabilities and limited buffers to respond, IDA countries are particularly exposed should key risks—many beyond their control—materialize. This could lead to further instability, increased fiscal pressures, and underinvestment, in turn undermining longer-term growth and development prospects. If these risks materialize, IDA countries could experience a lost decade in development.

Climate change-related disasters loom large as a risk for IDA countries. Many IDA countries, particularly those located in tropical and subtropical areas, are exposed to climate change-related risks.¹⁹ The negative effects of climate change and associated natural disasters on growth could be amplified by limited fiscal capacity to respond to them, or through their impact on public sector balance sheets (Milivojevic 2023). The effects of natural disasters are likely to be uneven across populations, generally increasing poverty. Under an adverse scenario (combining a pessimistic baseline with high climate change impacts), over 130 million people could be pushed into extreme poverty by 2030, many of them in IDA countries (Hallegatte and Rozenberg 2017; Jafino et al. 2020).

Worsening conflict and violence could undermine growth and impede development progress. Conflict has surged in IDA countries recently, notably in the Sahel region (figure 12.A).²⁰ Further

¹⁸ Extreme poverty rates between 2019 and 2023 increased in LICs from 42.1 to 42.6 percent; in FCS, from 34.2 to 35.2 percent; and in small states, from 16.0 percent to 17.7 percent.

¹⁹ IDA countries located in tropical and subtropical regions are prone to natural disasters such as hurricanes, typhoons, heavy monsoons, and droughts. In the Sahel region, countries like Niger, Chad, Sudan, and Mali endure arid climates, making them susceptible to desertification with its adverse effects on agriculture and living conditions. Bangladesh and Pakistan encounter seasonal river basin flooding, which, despite enriching soils, frequently results in extensive damage and displacement. Additionally, countries such as Mozambique and Bangladesh are at high risk from cyclones and rising sea levels.

²⁰ Pervasive violence and political instability exacerbate the challenging economic and humanitarian situations in many IDA countries last year—especially in the Sahel region—including Burkina Faso, Mali, Niger, Somalia, South Sudan, and Sudan, as well as in Ethiopia and the Democratic Republic of Congo.

escalation could intensify political instability, deepen food insecurity, divert scarce government resources away from growth-enhancing areas such as health and education, and undermine investment prospects. The result would be weaker growth and development outcomes.

IDA countries are also exposed to an array of external risks. Many of these are not unique to IDA countries but would nevertheless have negative spillovers for these economies (World Bank 2024a). Risks to the outlook for IDA countries are compounded by the threat of weaker-than-expected long-term global growth. A longer-term perspective suggests that a more fundamental structural slowdown is likely to persist globally throughout the remainder of the decade. Global potential growth is projected to fall to a three-decade low of 2.2 percent over the remainder of the 2020s—0.4 percentage point below the average from 2011-21 and continuing a secular deceleration (figure 12.B; World Bank 2023a). The slowdown has multiple causes: the global labor force is aging and growing more slowly, and the growth rates of investment and total factor productivity are weakening. A risk is that the decelerating trend could become more pronounced if, for example, labor market, education, or health outcomes fail to meet expectations; if investment falls short of projections; or if new recessions, climate disasters, or other shocks result in enduring damage.

Geopolitical risks increased sharply in the wake of the recent conflict in the Middle East, in addition to Russia’s invasion of Ukraine (figure 12.C). Further escalations—especially if major oil producers become more embroiled—could lead to significant oil supply disruptions and spikes in food and fuel prices (Ha et al. 2023), with diverse but significant impacts on IDA countries. Geopolitical tensions could also prompt a flight to safety in international capital markets, resulting in currency depreciations for countries perceived as riskier, including many IDA countries, pushing up inflation and raising external debt servicing costs. Elevated geopolitical tensions and policy uncertainty could also dampen remittances, exacerbating financial challenges in IDA countries that rely on them (Chuku et al. 2023; World Bank 2023b; World Bank 2024a).

A sharper-than-expected near-term slowdown in major economies, including China, could have severe consequences for IDA countries. China’s importance as an export destination, including for commodities, has grown in recent decades, particularly for IDA countries (figures 12.D and 12.E; Baffes and Nagle 2022). More than 12 percent of IDA countries’ exports now go to China according to recent data—a share that has risen by about half over the last decade. A more pronounced slowdown in China could also hurt IDA countries through shifts in global investor sentiment, financial conditions, and lending (Ahmed et al. 2019). China’s position as a large creditor to many IDA countries indicates a further possible channel for adverse spillovers.

A protracted period of tighter global financial conditions would also be challenging for IDA countries. This would come on top of one of the sharpest and most synchronized monetary policy tightening cycles in recent decades (figure 12.F). It could be triggered by more persistent inflation, higher global interest rates (resulting from tighter monetary policies, pressures from fiscal deficits or strong demand), and/or a rise in risk aversion. Further depreciations of IDA countries’ currencies as a result of higher global interest rates would raise inflation, drive up the costs of servicing foreign-currency-denominated debt, and likely be a drag on activity. As with other EMDEs, IDA countries with twin fiscal and current account deficits (76 percent of IDA countries as of 2023) would be particularly vulnerable to rapid capital outflows, which tend to accompany sudden increases in U.S. term premia.

Increasing fragmentation of international trade and investment networks could also complicate the outlook for IDA countries, even though they are often less integrated into global value chains than other EMDEs. Given the high concentration of exports in some IDA economies, they could be particularly exposed to sector-specific developments.

VII. Natural resources and demographic dividends

VII.1 Natural resources

IDA countries boast substantial natural resources. They account for about 20 percent of global production of tin, copper, and gold (figure 13.A). Moreover, their shares of global production are pronounced in certain agricultural sectors, especially in tropical commodities. In cocoa, IDA countries contribute more than three-quarters of global supply, with Côte d'Ivoire contributing 45 percent to the global supply. These countries also account for about 17 percent of the global coffee supply, with globally significant producers including Ethiopia and Uganda.

Overall, IDA countries represent only a small fraction of the global supply of energy and most metals—about two to three percent. Moreover, across energy, metals, and agriculture, specific commodity resources are often concentrated in a relatively small number of countries. In some cases, including for some IDA graduates, these natural endowments have been important sources of revenue and drivers of development over time. In others, however, the presence of natural resources has arguably hindered development efforts, which indicates the importance of prudent and effective policies for resource management.

Several IDA countries have large reserves of essential minerals essential for the global energy transition. About a quarter of IDA countries possess critical mineral deposits (Andreonia and Avenyob 2023; Hendrix 2022; USGS 2024). Overall, these countries accounted for less than three percent of most critical mineral supplies on average in 2022, but there are important exceptions, such as cobalt, graphite and rare earth oxides, where a few IDA countries' share of global production is much higher.²¹ Apart from their shares in current global production, IDA countries account for large shares of global reserves of some of these commodities. The extended lead times for new mining projects, sometimes spanning decades, underscore the strategic importance of IDA countries' mineral reserves.

The global energy transition will bring opportunities for some IDA countries and challenges for others. As the energy transition speeds up, the prospect of greater demand for minerals essential to it provides new opportunities for growth and transformation in these IDA countries (Agnolucci et al. forthcoming; IEA 2022). However, concentrations of specific resource deposits in a small number of countries can also bring pressures and risks to these economies.

Careful design and implementation of institutional and regulatory frameworks will be critical to ensure that resource wealth is managed to support these countries' development objectives. These concentrations also offer opportunities for specific IDA countries to integrate themselves into important global value chains. Meanwhile, several IDA countries that are heavily reliant on fossil-fuel exports will need to shift to low-carbon pathways. In some cases (such as Myanmar and Papua New Guinea), pivoting to metal production could help.

Many IDA countries also have natural advantages that could support solar energy production. Although it varies by geographic location, long-term daily electricity production potential is high in many IDA countries, including relative to major EMDEs (ESMAP 2020). For example, for about one-third of IDA countries, long-term daily photovoltaic power potential averages exceed 4.5 kilowatt hours per installed kilowatt peak (kWh/kWp)—a measure of the average daily energy

²¹ The Democratic Republic of Congo and Myanmar, for instance, produce most of the world's cobalt. In graphite, IDA countries contribute about one-fifth of global supplies, with producers like Madagascar and Myanmar contributing 10 and 8 percent respectively. Additionally, diverse mineral resources important for specific technologies provide opportunities for some IDA countries to increase their presence in global critical minerals markets—such as silicon in Bhutan for solar panels, manganese in Côte d'Ivoire and Ghana for batteries, and tantalum in Burundi, Nigeria, and Rwanda for electronics.

produced by a solar panel system per unit of peak capacity. In contrast, Brazil, China, and India are assessed as having mid-range potential (3.4 to 4.5 kWh/kWp). As in other policy areas, infrastructure shortfalls, low institutional capacity, and scarce fiscal resources to fund projects involving solar energy means that practical output under current technology is about 20 percent lower than potential output in IDA countries (figure 13.B). However, with appropriate policies, activation of this solar potential could enhance energy access and resilience in IDA countries, in turn supporting further investment and growth opportunities.

Many IDA countries also have significant economic potential via tourism. Tourism is already important for some IDA countries, particularly among IDA's small states. It can be an engine for sustainable economic growth, including via job creation, enhanced inclusion, and poverty reduction (IFC 2017; World Bank 2022c). Promoting tourism, however, comes with risks related to resource depletion and environmental degradation. An overreliance on tourism can also make countries more vulnerable to global shocks, as was the case in many small states during the pandemic. A tourism-focused development strategy is likely to be contingent on a stable political environment, strong institutions, solid infrastructure, and reliable healthcare provision. This presents challenges in many IDA countries. Nevertheless, benefits associated with tourism, such as deepening local value chains, enhanced human capital accumulation, and infrastructure investment, can become mutually reinforcing.

VII.2 Demographic dividends

IDA countries can also reap substantial demographic dividends as the share of their populations who are of working age grows significantly over the next half-century, while labor forces in most of the rest of the world decline (figure 13.C). This trend is already underway: IDA countries recorded an annual average of 32 births per 1,000 population during 2000-21, notably higher than the 19 births per 1,000 population observed in other EMDEs in the same period. Birth rates have been particularly elevated in LICs and FCS. By contrast, working-age populations as a share of total population have been declining in the advanced economies for over a decade. Working-age populations are projected to be stable in non-IDA EMDEs into the 2030s before falling.

The expected growth in working-age populations in IDA countries could have sizable economic impacts. A one percentage point rise in the proportion of the working-age population can lead to an enhancement in GDP per capita growth by 1-3 percent (figure 13.D; Kose and Ohnsorge 2023). This is particularly true for Sub-Saharan African countries, where the demographic dividend, if combined with effective labor market reforms, could bolster growth significantly, adding an estimated 1.2 percentage points a year to potential growth between 2022 and 2030 (Kasyanenko et al. 2023).

VII.3 Potential benefits and risks

Harnessing this dual potential from both natural resources and demographics is not a trivial task. There are potential benefits but also risks. With comprehensive policy packages, supported by strategic investments, these countries can take advantage of both their rich resource endowments and their expanding working-age populations to accelerate development progress. However, realizing both opportunities will depend on the implementation of ambitious and well-designed policies geared towards delivering macroeconomic stability, boosting investment, enhancing human capital, creating more and better jobs, and overcoming substantial structural growth barriers. Capitalizing on both advantages is a complex task: there is a large literature stressing the risks as well as the opportunities (Canning, Raja, and Yazbeck 2015). Without effective implementation of carefully-designed and well-calibrated policies, including effective institutional and regulatory frameworks for the extractives sector, these potential advantages could become drags on development.

VIII. Investment needs and policies

VIII.1 Investment needs

To meet their development objectives, IDA countries have to address substantial investment needs. On a global scale, huge additional investments will be required to achieve the Sustainable Development Goals (SDGs) related to human and physical capital development while addressing climate risks (Aggarwal et al. 2024; Kharas and Bhattacharya 2023). Particularly in the regions where extreme poverty is most severe, investments needed to meet infrastructure-related SDGs are high (Gill, Revenga and Zeballos 2016; Vorisek and Yu 2020). In Sub-Saharan Africa, annual infrastructure investment needs surpass 9 percent of GDP, while in South Asia and the Middle East and North Africa, they are estimated at around 7.5 percent of GDP (figure 14.A; Rozenberg and Fay 2019).

Significant infrastructure investment needs, both physical and digital, underscore the broader development hurdles confronting IDA countries (section II). One-third of the population of IDA countries lacks electricity, and only 46 percent used the internet in 2021. Furthermore, only 31 percent of the population has access to basic sanitation facilities. Infrastructure shortfalls contributed to poor health and education outcomes. Despite strides since 2000, progress in addressing infrastructure challenges in IDA countries has lagged other EMDEs.

These investment gaps underline a critical, broad-reaching challenge facing IDA countries—the difficulty of marshalling the financial resources needed to meet their development objectives (Songwe and Aboneaaj 2023). Amid the overlapping crises of the last four years, investment growth in IDA countries remained weak (as discussed in section III; World Bank 2024a). At the same time, IDA countries’ fiscal imbalances and debt servicing costs rose significantly. The disparity between the urgent need for enhanced investment in infrastructure and human development on the one hand, and the reality of subdued investment growth and limited fiscal space on the other, makes clear the hurdles that IDA countries face in seeking to achieve significant progress in addressing the challenges of development and climate change.

VIII.2 Policies driving progress

Nonetheless, history shows that sustained progress is possible for IDA countries. Three dozen countries have successfully graduated from IDA, 12 of them since 2000.²² IDA graduates, ranging from the world’s most populous countries to resource-rich economies and small states, have recorded some spectacular macroeconomic progress in recent decades. Several have become major players in the global economy, and per capita incomes in these countries grew strongly for extended periods, particularly in the decades before and after their respective graduations from IDA.

Large economies such as China, India, and the Republic of Korea successfully graduated from IDA and are now important engines of the global economy. In both Korea and China, per capita GDP more than doubled in the decades prior to and after graduation.²³ In China and India alone, the number of extreme poor has fallen by over one billion in the last 30 years (as discussed in section V). Many IDA graduates now contribute to IDA as donors, with nine of them together

²² See table A.2 in the appendix.

²³ World Bank (2015, 2018a, and 2021) and Ferro and Nishio (2021) provide information about the cases of China, India, and Korea in the context of their IDA memberships. Korea joined IDA in 1961 (with annual per capita GDP of \$1,063), graduated in 1973 (with per capita GDP of \$2,497), and as of 2023 had GDP per capita of \$33,788. China joined the World Bank and IDA in 1980, with annual per capita GDP of \$421, graduated in 2000 (with per capita GDP of \$2,142) and in 2023 had GDP per capita of \$11,707. India, meanwhile, had per capita GDP of \$294 in 1961 as IDA got underway; by its graduation in 2014 this had risen to \$1,525, and as of 2023 it was \$2,298. Korea is one of three IDA graduates now classified as a high-income country (along with Chile and St. Kitts).

accounting for almost one-tenth of net contributions in the last IDA replenishment round in 2022.

IDA graduation has often occurred after countries have undertaken comprehensive policies of reform to boost investment and growth. For instance, in Korea, which graduated from IDA in 1973, government policies (through strategic interventions and coordinated investment initiatives) enhanced returns on private capital, driving remarkable economic growth that began in the 1960s (Kim and Lau 1994; Rodrik 1995; Stamm and Yu 2024).²⁴ Similarly, India's graduation in 2014 followed a prolonged period of robust economic growth fueled by accelerated investment between 1994 and 1999 (Stamm and Yu 2024). Policy reforms in the early 1990s targeted key economic distortions, strengthening the private sector and promoting international investment and trade (Ahluwalia 2002; Ahmad et al. 2018; Gupta et al. 2018). Overall, reform efforts in graduating countries have been varied and multifaceted, but many IDA graduates were able to make significant, lasting, and growth enhancing changes to the structure of their economies.

Careful implementation of well-designed policy packages, tailored to country circumstances, is often key to their durability and success. Particularly where capacity constraints and weak initial conditions prevail, the appropriate sequencing of reforms can be critical (IMF 2024; Kose et al. 2009). Political and social buy-in to the reform agenda is vital, particularly as the necessary reforms often entail short-term and sometimes concentrated costs in exchange for longer-term and more widely shared benefits. Clear communication and policy consistency are therefore important.

Policy packages should be country-owned and tailored, but there are some common threads. Successful packages often include fiscal and monetary interventions, as well as structural reforms, including to strengthen macroeconomic policy frameworks, expand cross-border trade and financial flows, and improve the quality of institutions. Although individual policy measures can help ignite investment accelerations—that is, sustained periods of rapid investment growth—comprehensive packages significantly increase the likelihood of sparking such episodes (figure 14.B; Stamm and Yu 2024). Since 1950, there have been, on average, about 2.1 investment accelerations in IDA graduates, but only about 1.3 episodes in the current group of IDA countries (figure 14.C).

Investment accelerations have often been transformative for EMDEs, including IDA graduates. The median annual growth rate of investment in EMDEs was slightly above 10 percent in a typical investment acceleration during 1950-2022, just over three times the 3.2 percent median growth rate in other years (figure 14.D). Output growth increased by 2 percentage points, and productivity growth quadrupled to 1.7 percent per year during accelerations (figure 14.E). Investment accelerations are also associated with higher productivity growth through intersectoral resource shifts (Dieppe 2021; Hoyos, Libman, and Razmi 2021). During a typical investment acceleration, the composition of employment shifts significantly away from the agriculture sector towards manufacturing and services, and output growth in manufacturing and services increases significantly (figure 14.F). Accelerations have also generally been accompanied by faster poverty reduction and income convergence towards advanced economy income levels, as well as increased access to infrastructure.²⁵

The quality of investment is important, and it depends partly on strong governance and institutional frameworks. This is most directly evident in public investment, where reforms to tackle corruption and poor governance, as well as to improve the capacity of fiscal administration,

²⁴ During the early 1960s, Korea possessed an exceptionally well-educated labor force compared to its physical capital endowment, leading to a notably high latent return on capital.

²⁵ These results collectively suggest a strong association between investment accelerations and improved macroeconomic and development outcomes. However, they do not imply a causal link. Indeed, there can be self-reinforcing dynamics between investment accelerations and other beneficial developments during these episodes. That said, the regular coincidence of investment accelerations and transformative phases of macroeconomic and developmental progress underscores the critical importance of periods of rapid and sustained investment growth (Stamm and Yu 2024).

are pivotal to improving investment efficiency (Chakraborty and Dabla-Norris 2011; Dabla-Norris et al. 2012). Countries with better governance of public investment projects tend to register larger improvements in macroeconomic and fiscal outcomes (Stamm and Yu 2024). The argument can be extended to private sector investment too: efficient and effective oversight is important for delivering stability and harnessing the benefits from investment.

IX. Domestic policy priorities

IX.1 Fiscal policy

IDA countries are confronted with markedly larger fiscal imbalances and greater debt vulnerabilities now than they were before the pandemic. Given the multifaceted nature of IDA countries' fiscal problems, comprehensive policy interventions are often required. At the same time, they are constrained by the realities imposed by initial conditions and the impact of the overlapping crises of recent years (Ahmed and Songwe 2022). Fiscal policy has an important role to play in fostering macroeconomic stability, building resilience, capitalizing on the distinctive advantages of IDA countries, and creating the conditions for strong investment growth.

Building tax capacity is crucial to increasing the mobilization of domestic resources, which lags other countries. Tax revenues in IDA countries on average account for just 11.9 percent of GDP, well below the 15 percent typically assessed as the minimum ratio necessary to finance basic public services and development needs (see for example Gaspar, Jaramillo, and Wingender 2016). Increasing tax capacity can facilitate the provision of essential public services and the building of fiscal buffers (Doumbia and Lauridsen 2019). Stronger revenue collection can also improve the potential redistributive power of taxation and the financing available for social protection systems, thus facilitating poverty reduction (Lopez-Acevedo et al. 2023). Addressing informality in the economy and enhancing tax administration are two of the ways in which revenues can be enhanced: they are often complex tasks for IDA countries, linked closely to institutional strength.²⁶

Progress is possible among IDA countries if reforms are well designed. Reforms could focus on broadening tax bases, strengthening tax administration, and enhancing tax efficiencies (Mawejje, Ohnsorge, and Yu 2023; Okunogbe and Tourek 2023). Shifts in incentives through the tax system can also play an important role, helping to meet multiple objectives: reinforcing complementary objectives: for example, the elimination of fossil fuel subsidies, together with the introduction of carbon taxes, can incentivize investment in energy-efficient technologies while also enhancing revenues (World Bank 2023c).

Enhancing expenditure efficiency and reallocating existing resources towards more growth-enhancing sectors and to support the most vulnerable is critical. Spending efficiency is weaker in IDA countries than in other country groups, including in key areas (figure 15.A). Progress hinges partly on strengthening institutional frameworks, because corruption and weaker law and order are associated with less efficient spending practices (Mawejje, Ohnsorge, and Yu 2023). Social protection systems should be designed to help the most vulnerable, providing access to critical services and support.

There is also potential to cut less productive spending to facilitate more growth-enhancing or better-targeted programs. For instance, food and energy subsidies are extensive in LICs but tend to be poorly targeted and fiscally costly (Coady, Flamini, and Sears 2015). Integrating subsidy reforms into broader reform campaigns, along with compensatory packages negotiated within societies, could help garner public support, especially by ensuring credible commitments to

²⁶ For a detailed discussion on policies to address informality, see Benitez et al. (2023); Mawejje and Sebudde (2019); Ohnsorge and Yu (2021); Waseem (2018).

reinvest savings and employing communication strategies that focus on climate change, fairness, and efficiency in resource utilization (World Bank 2023c).

Strengthening fiscal credibility through improved fiscal discipline is important. This can promote macroeconomic stabilization, paving the way for creating additional fiscal space in the future and fortifying resilience against potential shocks. Commodity-exporting IDA countries—about 70 percent of the group—can particularly benefit from prudent fiscal policies, since excessive reliance on commodity revenues can leave countries’ budgets vulnerable to commodity price volatility (figures 15.B and 15.C; Arroyo Marioli, Fatás, and Vasishttha 2023) and their economies vulnerable to fiscal procyclicality (figure 16.D; Arroyo Marioli and Vegh 2023). Excessive reliance on commodity revenues can also result in the “resource curse”—the term coined to describe how commodity abundance, if not managed properly, can damage overall growth.²⁷

Introducing and implementing fiscal frameworks and rules can enhance credibility. These frameworks can also improve fiscal policy outcomes if delivered effectively and in conjunction with transparency and stronger institutions. Examples of such frameworks are independent fiscal councils and sovereign wealth funds.²⁸ These are rare among IDA countries, and their introduction has to take into account individual country circumstances and capacities (figure 15.E).

IX.2 Monetary and financial sector policies

Containing inflation remains an important priority in IDA countries. While average headline inflation has halved from its mid-2022 peak, it remains elevated, and progress has been uneven among countries, with price pressures persisting in many (see Section V). Recent signs of inflation remaining stubbornly high in advanced economies, and the possibility of global interest rates remaining higher for longer than previously expected, could also put pressure on IDA countries. IDA policy makers can indicate a readiness to tighten policies again should upward pressure on inflation, including from currency depreciation, return. This may help to contain the pressures and to anchor medium-term inflation expectations (World Bank 2024a).

IDA policy makers face significant challenges in maintaining credible monetary policy frameworks. A large majority of IDA countries operate with a fixed exchange rate or use the currency of another country (figure 15.F). These countries tend to give priority to exchange rate stability over monetary policy autonomy while counting on the credibility of the anchor currency’s monetary authority to maintain low domestic inflation (Buffie, Airaud, and Zanna 2018). Countries with more credible, transparent, and independent central banks, along with inflation-targeting monetary policy regimes, tend to experience better-anchored inflation expectations and smaller exchange rate pass-through from depreciation to inflation (Ha, Stocker, and Yilmazkuday 2020; Kose et al. 2019). There is still significant scope for progress in these areas by IDA countries, given that only a small fraction of them have independent central banks operating inflation-targeting regimes. However, for many IDA countries, this is an objective for the longer term.

For IDA countries with some form of fixed exchange rate regime, monetary and fiscal policies need to be consistent with maintaining adequate reserves and the credibility of the peg. This should help the maintenance of price stability and the anchoring of inflation expectations. More broadly, transparent communication by monetary authorities, combined with a clear and decisive commitment to central bank targets, can buttress the credibility of monetary frameworks, which would lessen long-term inflationary pressures (Ha, Kose, and Ohnsorge 2019). In addition, policy makers can act to conserve or replenish foreign currency reserves, for example by demonstrating

²⁷ On the “resource curse,” see Bleaney and Halland (2009) and Sachs and Warner (1995) for detailed discussions.

²⁸ On these fiscal arrangements, see Beetsma et al. (2019); Caselli and Reynaud (2020); Gill et al. (2014); and Gootjes and de Haan (2022).

a commitment to policies that boost investor confidence and attract foreign capital.

Heightened volatility in global financial markets could increase liquidity and solvency risks in IDA countries' financial sectors. In banking sectors, currency and maturity mismatches between assets and liabilities need to be monitored. Emerging issues should be managed promptly, especially because of vulnerabilities—including in highly-leveraged non-bank corporations—to elevated interest rates (Koh and Yu 2020). Timely and transparent reporting of nonperforming loans is crucial for effective monitoring of banking sector health. Amid high debt vulnerabilities, the deeper public/private nexus in many IDA countries' financial sectors could make the banking system and the broader economy more vulnerable to macroeconomic shocks.

Over the medium term, frameworks to address potential banking sector stress in IDA countries could be improved. For example, liquidity requirements could be refined to better address foreign currency liquidity risks and to ensure that assets deemed liquid are of sufficiently high quality (IMF 2023b). At the same time, deeper domestic financial markets can help reduce risks relating to currency fluctuations and external financing flows, as well as promoting financial inclusion; this needs to be balanced with market oversight efforts (IMF 2024).

IX.3 Structural policies

A wide range of structural policies can enhance the investment climate, promote investment growth, close development gaps, and help ensure that IDA countries effectively harness their relative demographic and natural resource advantages. Structural policies are important for global poverty reduction efforts and sustainable development, not just for fostering growth (Wu et al. 2024). Priority areas will depend on country-specific circumstances, and the areas discussed below are not exhaustive. However, given capacity constraints, careful sequencing is vital. In many IDA countries, a focus on strengthening institutions and fostering human capital will be pivotal.

Improving healthcare and education provision is crucial to ensuring that favorable demographics can underpin economic gains. Increased working-age populations are only helpful if productive jobs are available, and people are well-equipped for them. Better healthcare and education will strengthen the labor force and harness the demographic dividend of IDA countries. Access to healthcare and education deteriorated during the pandemic and has been impeded since (World Bank 2023d). Learning losses were especially pronounced in IDA countries, with significant disruptions in South Asia and Latin America and the Caribbean (figure 16.A).

These setbacks could have a significant impact on growth and development, with projections pointing to a substantial reduction in future GDP because of disrupted schooling, disproportionately affecting marginalized and economically vulnerable students (Azevedo et al. 2021). Conversely, improvements in health and education outcomes could help secure the dividend from IDA countries' favorable demographics during the coming decades, supporting inclusivity and bolstering potential growth. Concerted action to unwind these the deterioration in education and healthcare and to enhance future prospects is an important development priority.

Comprehensive policies are necessary to tackle the diverse challenges IDA countries face in education. Prioritizing investment in education is pivotal for creating and maintaining a skilled labor force, for fostering innovation, and for fortifying social cohesion (World Bank 2018b). Each additional year of schooling is estimated to increase an individual's hourly earnings by 9 percent (Psacharopoulos and Patrinos 2018), highlighting the value of bolstering education budgets.

Ensuring learning equality, with resources directed towards disadvantaged pupils, including those affected by conflict and displacement, is important (Jin, Jirasavetakul, and Shang 2019). Training in vocational and technical skills should also be matched to emerging economic needs. The characteristics of a sectoral focus will vary depending on country circumstances, but infrastructure

(including in relation to electricity provision and the energy transition), healthcare, agri-business, and tourism may all be growth areas for many IDA countries.

In the health sector, policy efforts should focus on accelerating the recovery of human capital while mitigating vulnerability and fostering resilience against future shocks. Notably, in IDA's LICs, healthcare facilities face particular hurdles relating to water supply, sanitation, and hygiene services, in addition to waste management and environmental cleanliness (Hutton, Chase, and Kennedy-Walker 2024). Well-executed investments in comprehensive water supply, sanitation, and hygiene, coupled with effective healthcare waste management, can underpin substantial steps forward in these economies, including via prevention of healthcare-associated infections and enhancement of patient care.

Health and education in IDA countries can also benefit from a digital focus. Investments are necessary to enhance the technological capacity and resilience of education, public health, and training systems. Embracing digitalization and fostering connectivity can boost the efficiency of health and education spending while enhancing resilience to future disruptions. Governments should also improve access to existing free and open-source education technologies, promoting inclusivity and equal opportunities, especially for marginalized students (Burns et al. 2019; UNESCO 2020).

Closing the gender gap and taking other measures to increase labor-force participation are essential. In IDA countries, about half of the female population participates in the labor force—slightly higher than in other EMDEs (figure 16.B). This likely reflects the relatively large role of agriculture sector in many IDA countries, especially in IDA's LICs. Nevertheless, there is wide variation across regions, with female participation particularly low in IDA countries in the Middle East and North Africa as well as South Asia (figure 16.C). Progress in closing gender gaps lags considerably behind advanced economies. In the 1990s, average female-to-male ratios of labor force participation were equal in IDA countries and the advanced economies, but, by 2022, participation was almost 11 percentage points higher in advanced economies (figure 16.D).

Barriers such as skills mismatches, inadequate childcare, discrimination, and restrictive policies persist in many IDA countries. To overcome these problems, investments in education, social protection, childcare support, and legislative reforms are critical (Bussolo et al. 2022; World Bank 2022d). Active labor market programs and youth employment initiatives can help equip young people with the skills needed to access better job opportunities, ultimately fostering more inclusive economic growth (ILO 2023).

Well-calibrated measures to support the business environment can also be important for mobilizing private capital. The private sector has a key role in filling investment gaps in many cases, including in infrastructure (Lebrand, forthcoming). Liberalization around external financing, product market reforms, and trading arrangements can bolster growth in private investment, though the impacts vary depending on country circumstances. Strong and consistent government support, including through effective implementation of regulations that promote the efficient and equitable working of competitive markets, can play a critical role. Infrastructure-related incentives—for example, to facilitate the energy transition—may also be required. Again, the success of measures will depend in part on institutional credibility.

Trade reforms, policies that strengthen and deepen the financial sector, along with improved digital and technological infrastructure, can also promote investment growth. In many EMDEs, including IDA countries, reducing non-tariff barriers (for example, by shortening customs procedures, harmonizing inspection and labeling requirements, and improving trade-related infrastructure, including digital technology) can lower trade costs. Membership in trade agreements can integrate small and geographically isolated economies into global and regional

value chains (World Bank 2020b). The African Continental Free Trade Area is a promising development in regional trade cooperation (Echandi, Maliszewska, and Steenberg 2022). Investment growth can be strengthened through improved access to external finance, by loosening the regulation of capital flows, promoting capital-market development (for example, through improved contract enforcement and access to credit and local currency financing), and developing the digital infrastructure to allow small firms and financial institutions to participate in financial markets (UN 2022b; World Bank 2022e).

Underpinning these priorities, stability and resilience are often important to development progress, but can also prove elusive. Stability and resilience matter in a purely economic sense, but are also linked to societal stability and capacity to respond effectively to shocks. Building institutional strength in the broadest sense is an important challenge for many IDA countries.

X. Global support

X.1 Financial support

Significant financial support from the global community has helped IDA countries make progress in recent decades. However, significant development gaps remain, and the additional pressures resulting from the pandemic and subsequent overlapping crises have contributed to slower progress or even reversals on some important metrics. Left unaddressed, these gaps could also hurt potential growth, further exacerbating the situation in IDA countries and leading to a lost decade in development.

Grants and concessional financing are imperative for IDA countries, but are also important for global economic stability and prosperity. If development progress in these economies slips further, the potential for negative spillovers to other countries is high. Total grants to IDA countries have fallen by almost 30 percent in little more than a decade, even as grants from IDA itself have increased (figure 17.A). Amid fiscal pressures intensified by the COVID-19 pandemic and subsequent crises, many IDA countries have largely lost access to international capital markets. Many IDA countries have a pressing need for access to steady, predictable, and low-cost financial flows (Songwe and Aboneaaj 2023). Multilateral creditors have increasingly played a crucial role as lenders of last resort to these economies, and the countercyclical support they provide is pivotal to developmental stability and progress (World Bank 2023e).²⁹

Donors and multilateral development banks should also continue to seek to catalyze financing in support of IDA countries' development efforts. This needs to complement IDA countries' own domestic efforts. International public support can bolster private capital mobilization through financial instruments and support, including credit enhancement, loan guarantees to address market failures, risk management (including in relation to natural disasters), and liquidity solutions for local markets (Stamm and Yu 2024; G20-IEG 2023; Zattler 2023). This can help address mismatches in investor risk appetites and investment offerings and can tackle market failures and policy shortcomings. Donors and multilateral development banks can also help promote innovative investment products such as environmentally-focused blue and green bonds. These efforts should be complemented with technical assistance to improve capacity across a wide range of policy areas.

X.2 Climate change

²⁹ In 2022, multilateral creditors injected a record \$115 billion in new financing into developing countries, with the World Bank contributing nearly half of this (World Bank 2023e). Particularly for the poorest countries, multilateral creditors emerged as the primary source of new financing, both through concessional loans and grants (the World Bank's \$6.1 billion in grants disbursed to IDA countries in 2022 was triple the amount provided in 2010).

IDA countries need significant global support to address climate change. Transitioning towards a decarbonized global economy and preparing for the impacts of climate change via adaptation both require substantial investments and financial resources. These will become more costly if delayed (World Bank 2023d; World Bank 2022f). The burden falls more heavily on poorer countries because they are disproportionately affected by weather-related disasters and face wider existing gaps in development and infrastructure needs (Neunuebel 2023). Total annual investment needs—which include investments needed for a resilient and low-carbon pathway and for closing existing development and infrastructure gaps—can be as high as 10 percent of GDP in some IDA countries, with poorer countries facing particularly large gaps (figure 17.B; World Bank 2022e; World Bank 2023f).

Strong global cooperation is needed to increase access to financing to address climate change. IDA countries are the group least responsible for the current threats of climate change. Their domestic resources are small, their fiscal and policy capacities for responding to disasters are constrained, and their access to capital markets and private capital is limited. Climate change compounds existing fragilities in many of these countries. However, initiatives to build resilience—such as transitioning to climate-resilient agriculture (adaptation) or promoting renewable energy (mitigation)—face significant budgetary constraints. International concessional climate finance—from the donor community and from private investors—will be vital to address IDA countries’ climate and development challenges and help them deliver on nationally determined contributions outlined in the Paris Climate Agreement (IEA and IFC 2023; McCollum et al. 2018).

X.3 Debt restructuring and relief

To avoid the high economic costs of debt crises, the international community should act preemptively to reduce debt vulnerabilities. Without additional action, mounting debt-service costs and slow progress in debt restructuring could exacerbate the difficulties facing many IDA countries. Debt restructuring and relief processes, particularly the G20 Common Framework, require improvements to address today’s sovereign-debt challenges: they have been too slow in delivering debt relief, and ill-equipped to manage the much more diverse landscape of private and official creditors today (figure 17.C; Chuku et al. 2023; Gill 2022; World Bank 2024). Debt restructuring and relief efforts can be complemented by measures that enhance debt transparency, which help contain debt-related vulnerabilities, restore fiscal space, and encourage external financing (World Bank 2023d). Greater concessional lending, earlier access to such financing, and more grants are also needed to support IDA countries in delivering growth-enhancing investments while containing debt-related risks.

X.4 Trade fragmentation and food insecurity

Boosting international trade and averting fragmentation of trade and investment networks are key global priorities that also matter for IDA countries. Disruptions to global value chains, whether from geopolitical conflict or trade policy restrictions, can lead to significant welfare losses globally—with particular harm to developing economies. Trade fragmentation can exacerbate food insecurity: many IDA countries rely heavily on food imports and are thus vulnerable to fluctuations in international food prices (Laborde, Lakatos, and Martin 2019). Since the onset of the pandemic, the number of policies restricting food exports has far exceeded those aimed at liberalizing them (figure 17.D). Enhancing the resilience of the trading system to shocks, including those stemming from intensifying geopolitical tensions, requires stronger international cooperation to support the diversification of products and markets and improve access to trade finance, especially for the most vulnerable countries. Sustained collective action is required to enhance resilience to food systems (Voegele 2022).

XI. Conclusion

IDA countries face an array of persistent development challenges that have been exacerbated by the COVID-19 pandemic and subsequent crises. Their recovery from the pandemic-induced global recession has been weak, relative to the rebound from the 2009 global recession, as well as relative to other EMDEs and advanced economies, including in terms of per capita income growth. This subdued growth has substantially hindered progress towards global development objectives. Advances in reducing extreme poverty, for example, have stalled after years of hard-fought progress. Debt vulnerabilities and mounting debt servicing costs further darken the outlook for IDA countries. Food insecurity has surged. The income gap between many IDA countries and the rest of the world looks set to widen even further. This constitutes a historic reversal in development.

The confluence of circumstances facing the current cohort of IDA countries is exceptional, but country specifics also matter. Conventional policy packages that worked in previous success stories may not be sufficient or viable to address the binding constraints facing some current IDA countries. Climate-related vulnerabilities pose growing challenges, while broader measures beyond policies of economic reforms may be necessary to foster stability in situations affected by persistent fragility and conflict.

Urgent action is needed to avoid further deterioration, accelerate progress, and chart a course towards a more hopeful future. Despite the multitude of challenges confronting IDA countries, they have significant agency to drive transformative change. The priority should be creating the conditions to support stronger investment growth. Creating these conditions (including via fiscal, health, and educational advances as well as strengthened institutions) and delivering investment accelerations can help support income growth, drive poverty reduction, and address infrastructure gaps.

The required policy packages may be daunting, but they are vital for investment and sustainable growth. Optimal interventions and their sequencing will differ from country to country, but key actions often include fiscal reforms to strengthen discipline and contain deficits, enhancing the credibility of fiscal policy, and creating space for investment. Stronger governance and institutional frameworks are crucial here. Moreover, they are important for boosting resilience and ensuring that natural resource endowments bring lasting benefits. Education and healthcare improvements are critical, including for capitalizing on demographic advantages; they also support more and better jobs. Global support will also be pivotal, both to directly assist IDA countries in delivering in these areas, and to address global challenges that, left unchecked, will have a disproportionate impact on these economies. Private investment will have an important role, but so too will public support, including from the international community. In some cases, parallel reforms to support durably societal stability will be key.

Without comprehensive domestic policy interventions—and global support—development objectives in IDA countries will fall further out of reach. Despite efforts by many IDA countries to improve their prospects, external conditions and global shocks have had significant and adverse spillovers for them. These factors have impeded development progress and macroeconomic reform efforts. Escalating debt servicing costs leaves little room to expedite the investment agenda in the short term, potentially compelling many IDA countries to reduce essential expenditures on education, health, and infrastructure, often from low base levels. This situation not only jeopardizes their immediate development but also risks erosions to long-term growth prospects, putting agreed development objectives even further out of reach.

A brighter future is possible for IDA countries. Through strategic policy making and concerted efforts, IDA countries can chart a course toward long-term shared prosperity, inclusive growth,

and greater resilience in the face of adversity. History offers many examples of previous IDA countries implementing successful policy packages, accelerating investment, and achieving significant development progress. Although current IDA countries face major obstacles, their demographic profiles and resource wealth also offer several comparative advantages that, if harnessed effectively, could support their own development and advance global objectives too.

A constructive approach must involve much greater global support and cooperation. This is especially important as private financing and concessional lending to IDA countries have declined in recent years. Collaborative efforts and sustained, stable, well-targeted support are crucial to driving meaningful change and advancing the collective prosperity of these countries and the global community alike. Enhanced international cooperation is also required to tackle the threat of climate change. In addition, the global community needs to guard against the fragmentation of trade and investment networks, including by prioritizing a rules-based international trading system and expanding trade agreements. Global cooperation is also critical to address the pressing issues of mounting food insecurity and conflict. Progress across all these measures is imperative for giving IDA countries the best possible chance of unwinding the reversals they have experienced, breaking free from their current bleak trajectory, and reaching a brighter development path.

Table 1 GDP growth

	2010-19 average	2020	2021	2022	2023e	2024f	2025f
IDA	4.8	0.3	4.7	4.2	3.7	4.3	4.5
IDA only	5.6	0.9	4.6	4.8	4.3	5.1	5.3
IDA blend	4.0	-0.3	4.8	3.5	2.8	3.3	3.5
IDA LICs	4.7	1.5	4.1	5.0	3.8	4.9	5.3
IDA MICs	4.9	0.0	4.8	3.8	3.4	3.9	4.3
IDA FCS	4.2	-1.5	2.4	3.9	2.9	3.6	3.8
IDA SS	3.7	-12.4	6.2	8.1	4.5	4.1	4.2
Other aggregates							
Advanced economies*	2.0	-4.0	5.5	2.6	1.5	1.4	1.6
EMDEs*	5.1	-1.5	7.1	3.7	4.2	3.9	4.1
EMDEs excl. IDA	5.1	-1.6	7.3	3.7	4.2	3.8	4.0

Source: World Bank.

Note: e = estimate; f = forecast. FCS = fragile and conflict-affected situations; LICs = low-income countries; MICs = middle-income countries (includes lower-middle income and upper-middle income countries); SS = small states. World Bank forecasts are frequently updated based on new information. Consequently, projections presented here may differ from those contained in other World Bank documents, even if basic assessments of countries' prospects do not differ at any given date. Aggregate growth rates are calculated using GDP weights at average 2010-19 prices and market exchange rates. Aggregate growth rates exclude Afghanistan, Lebanon, Somalia, the Syrian Arab Republic, and the Republic of Yemen because of a high degree of uncertainty. Aggregate growth rates for IDA small states exclude Guyana. IDA sample includes 71 economies.

*The numbers presented for advanced economies and EMDEs reflect preliminary working assumptions and are subject to change. The World Bank Group publishes official forecasts for advanced economies and EMDEs only in January and June.

Table 2 GDP growth per capita

	2010-19 average	2020	2021	2022	2023e	2024f	2025f
IDA	2.5	-1.8	2.4	2.0	1.5	2.1	2.3
IDA only	3.2	-1.4	2.3	2.5	2.1	2.9	3.1
IDA blend	1.8	-2.4	2.6	1.3	0.6	1.1	1.4
IDA LICs	1.7	-1.4	1.3	2.2	1.0	2.1	2.5
IDA MICs	2.9	-1.9	2.8	1.9	1.5	2.0	2.4
IDA FCS	1.5	-4.0	-0.1	1.4	0.4	1.1	1.3
IDA SS	1.9	-13.9	4.5	6.5	3.0	2.5	2.6
Other aggregates							
Advanced economies*	1.5	-4.3	5.4	2.4	1.3	1.2	1.4
EMDEs*	3.8	-2.5	6.1	2.8	3.2	2.8	3.1
EMDEs excl. IDA	4.1	-2.3	6.7	3.2	3.7	3.2	3.5

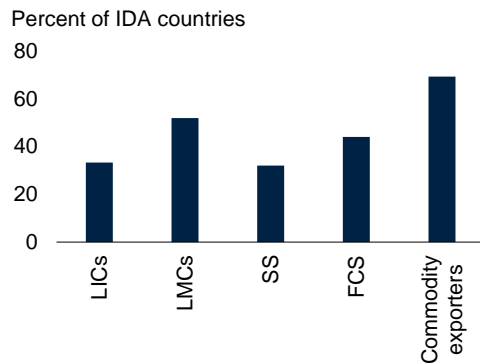
Source: World Bank.

Note: e = estimate; f = forecast. FCS = fragile and conflict-affected situations; LICs = low-income countries; MICs = middle-income countries (includes lower-middle income and upper-middle income countries); SS = small states. World Bank forecasts are frequently updated based on new information. Consequently, projections presented here may differ from those contained in other World Bank documents, even if basic assessments of countries' prospects do not differ at any given date. Aggregate growth rates exclude Afghanistan, Lebanon, Somalia, the Syrian Arab Republic, and the Republic of Yemen because of a high degree of uncertainty. Aggregate growth rates for IDA small states exclude Guyana. IDA sample includes 71 economies.

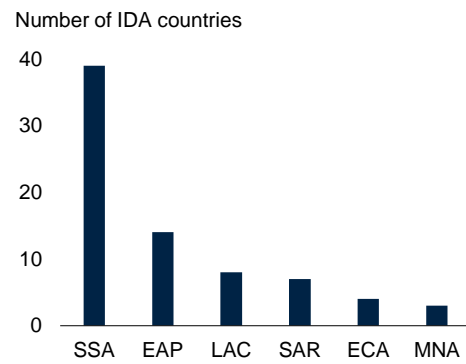
*The numbers presented for advanced economies and EMDEs reflect preliminary working assumptions and are subject to change. The World Bank Group publishes official forecasts for advanced economies and EMDEs only in January and June.

Figure 1 Characteristics of IDA countries

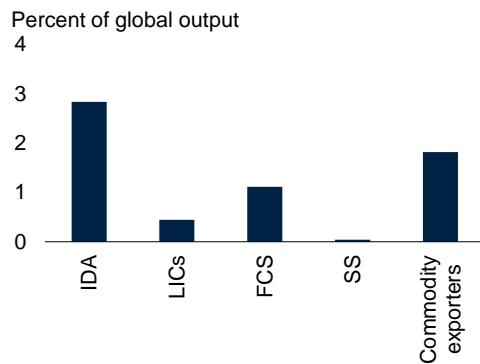
A. IDA country classifications



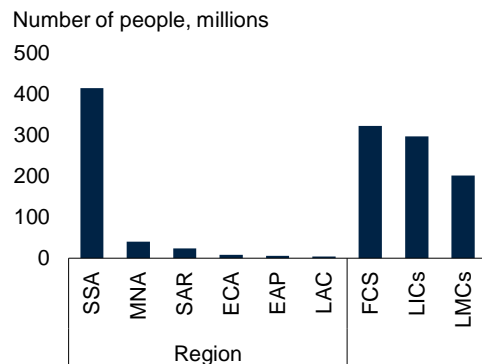
B. Regional distribution of IDA countries



C. Share of global output, 2015-23



D. Extreme poverty across groups of IDA countries, 2023



Sources: Mahler and Lakner (2022); World Bank Poverty and Inequality Platform; World Bank.

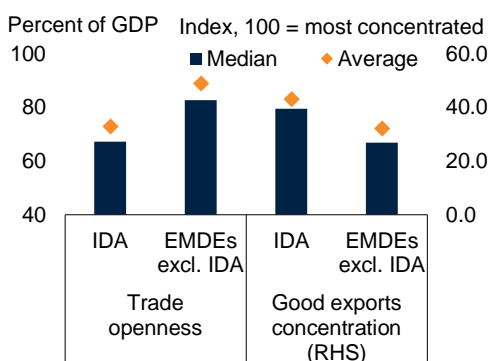
Note: EAP = IDA East Asia and Pacific; ECA = IDA Europe and Central Asia; FCS = IDA fragile and conflict-affected situations; IDA = IDA-eligible countries; LAC = IDA Latin America and the Caribbean; LICs = IDA low-income countries; LMCs = IDA low-and middle-income countries; MNA = IDA Middle East and North Africa; SAR = IDA South Asia; SS = IDA small states; SSA = IDA Sub-Saharan Africa.

A. Classification is for the 2023-24 fiscal year.

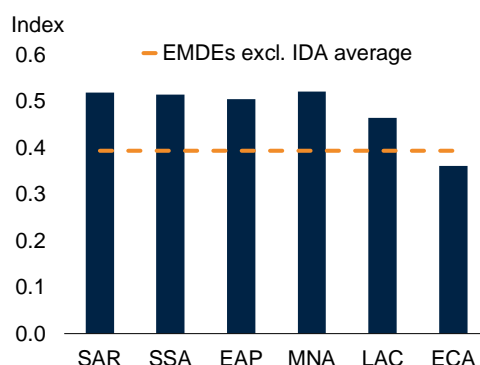
D. Bars show the number of people living below the definition of extreme poverty of \$2.15 a day. Data from Mahler and Lakner (2022) and Poverty and Inequality Platform.

Figure 2 Characteristics of IDA countries (continued)

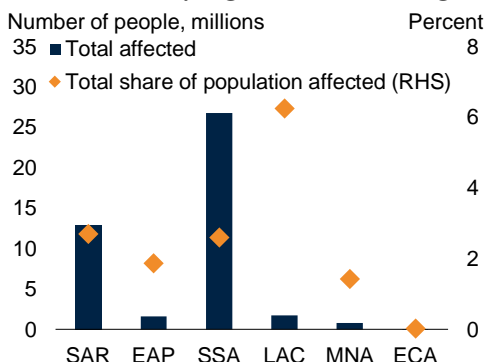
A. Trade openness and goods exports concentration, 2021-22 average



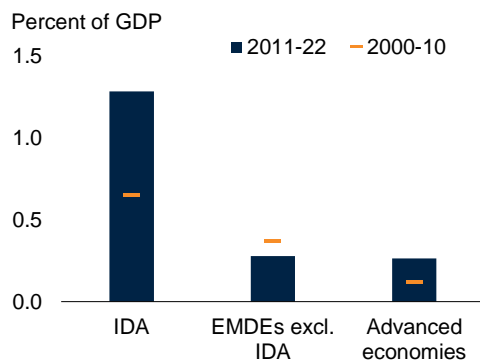
B. Vulnerability to climate risk in IDA countries by region, 2017-21 average



C. Number of people affected by natural disasters in IDA countries by region, 2013-22 average



D. Costs of natural disasters, annual average



Sources: EM-DAT (database); Notre Dame Global Adaptation Initiative; UNCTAD; UNU-WIDER; WDI (database); World Bank.

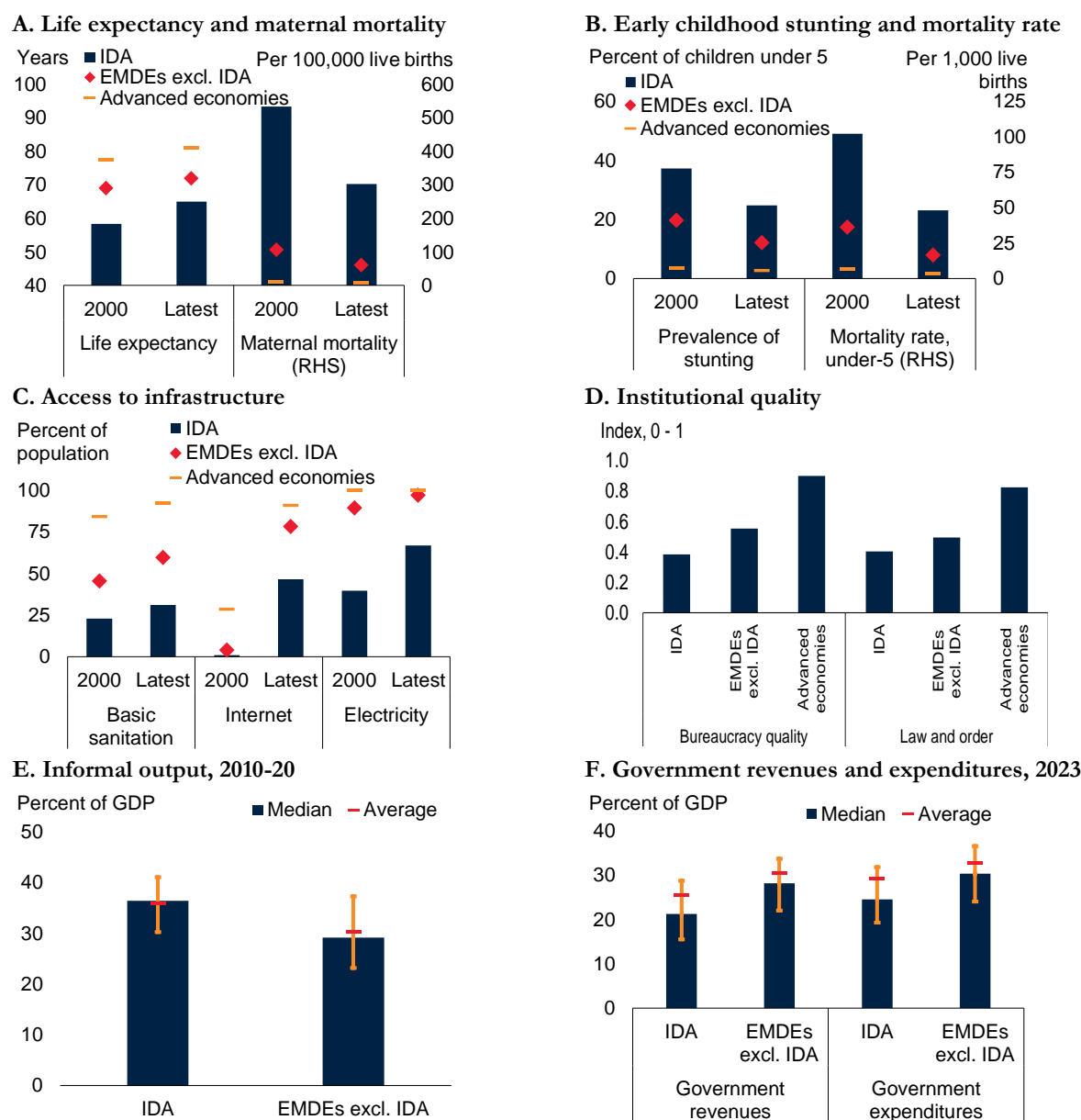
Note: EAP = IDA East Asia and Pacific; ECA = IDA Europe and Central Asia; EMDEs = emerging market and developing economies; IDA = IDA-eligible countries; LAC = IDA Latin America and the Caribbean; MNA = IDA Middle East and North Africa; SAR = IDA South Asia, SSA = IDA Sub-Saharan Africa.

A. Trade openness shows the sum of exports and imports. Sample includes 49 IDA-eligible countries and 63 EMDEs excluding IDA. Goods exports concentration index measures the degree to which a country's exports are composed of a small number of commodities. Sample includes 74 IDA-eligible countries and 78 EMDEs excluding IDA.

B. Aggregates are computed using 2015 GDP as weights.

B.C. Regional aggregates include only IDA countries.

Figure 3 Characteristics of IDA countries (continued)



Sources: Elgin et al. (2021); International Country Risk Guide (ICRG) database; IMF-WEO (database); WHO (database); WDI (database); World Bank.

Note: EMDEs = emerging market and developing economies; IDA = IDA-eligible countries.

A. Data show simple averages for an unbalanced sample of 74 IDA-eligible countries, 79 EMDEs excluding IDA, and 38 advanced economies. "Latest" refers to 2021 for life expectancy and to 2020 for maternal mortality.

B. Data show simple averages for 75 IDA-eligible countries, 79 EMDEs excluding IDA, and 36 advanced economies for mortality rate, and 70 IDA-eligible countries, 72 EMDEs excluding IDA, and 14 advanced economies for stunting. "Latest" refers to 2021 for mortality rate and to 2022 for stunting.

C. Average percentage of population, based on WDI data. Latest refers to 2021 for electricity and internet, and 2022 for basic sanitation. Electricity: unbalanced sample of 74 IDA-eligible countries, 79 EMDEs excluding IDA, and 37 advanced economies. Internet: unbalanced sample of 64 IDA-eligible countries, 75 EMDEs excluding IDA, and 37 advanced economies. Basic sanitation: unbalanced sample of 42 IDA-eligible countries, 47 EMDEs excluding IDA, and 34 advanced economies.

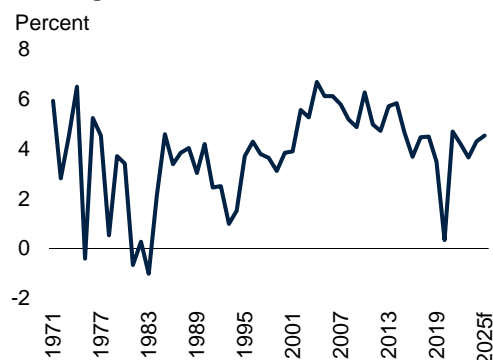
D. Panel shows ICRG scores for Bureaucracy Quality and Law and Order. Indexes are normalized to unity. Sample includes 38 IDA countries, 62 EMDEs excluding IDA, and 36 advanced economies.

E. Estimates of informal output based on calculations from a dynamic general equilibrium model (percent of official GDP). Bars show the results for 53 IDA countries and 68 other EMDEs excluding IDA. Panel shows 2010-20 average. Whiskers show interquartile range.

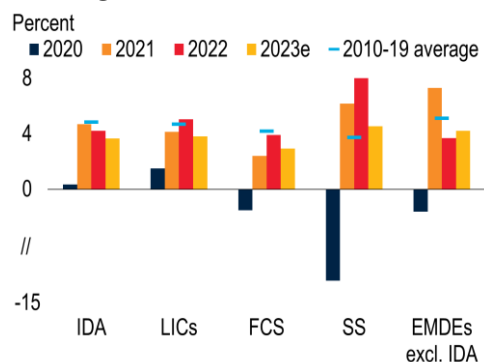
F. General government total revenues and expenditures for 2023. Whiskers show interquartile range. Sample includes 71 IDA-eligible countries and 77 EMDEs excluding IDA.

Figure 4 Macroeconomic developments: activity

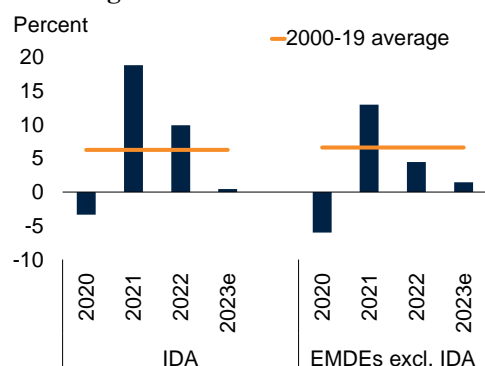
A. GDP growth trends in IDA countries



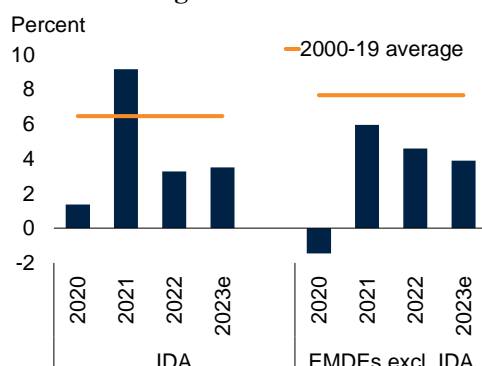
B. GDP growth



C. Trade growth



D. Investment growth



Sources: Haver Analytics; World Bank; World Bank Macro Poverty Outlook (database).

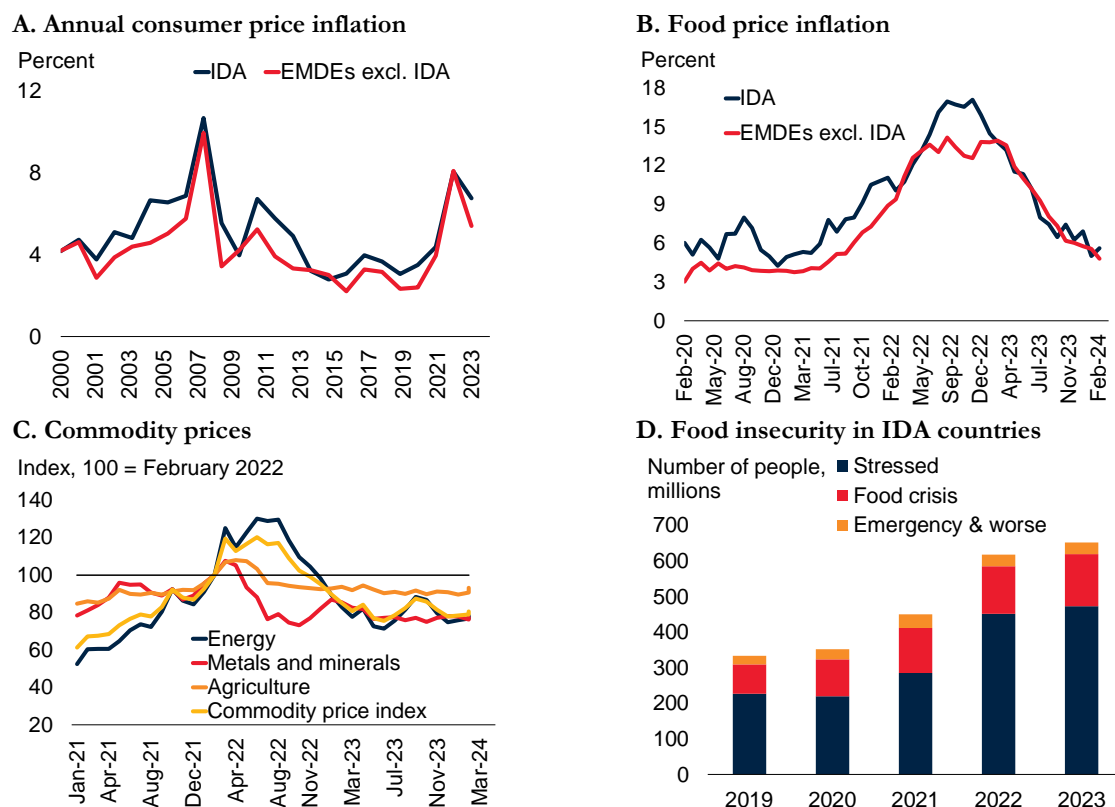
Note: e = estimate; f = forecast. EMDEs = emerging market and developing economies; FCS = IDA fragile and conflict-affected situations; IDA = IDA-eligible countries; LICs = IDA low-income countries; SS = IDA small states excluding Guyana.

A. Aggregate calculated using real U.S. dollar GDP weights at average 2010-19 prices and market exchange rates.

C. Trade in goods and services is measured as the average of export and import volumes.

D. Investment growth refers to gross fixed capital formation. Investment growth numbers from the January 2024 *Global Economic Prospects* report.

Figure 5 Inflation, commodity prices, and food insecurity



Sources: GRFC (database); Haver Analytics; World Bank Macro Poverty Outlook (database).

Note: EMDEs = emerging market and developing economies; IDA = IDA-eligible countries.

A. Panel shows median year-on-year headline inflation. Unbalanced sample of up to 70 IDA-eligible countries and 70 EMDEs excluding IDA.

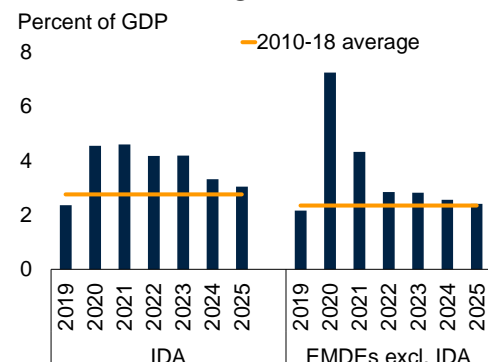
B. Panel shows year-on-year group median inflation for the food component of the consumer price index for up to 31 IDA-eligible countries and 63 EMDEs excluding IDA. Last observation is February 2024.

C. Data measured in U.S. dollars. Last observation is March 2024.

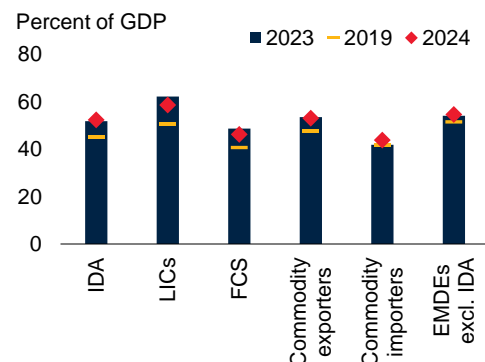
D. *Stressed*: Households cannot cover some essential non-food costs without resorting to stress-coping strategies. *Food Crisis*: Households either experience food shortages with high acute malnutrition or meet minimal food needs through significant asset depletion or crisis-coping actions. *Emergency*: Households face severe food shortages, resulting in very high acute malnutrition and increased mortality, or bridge major food gaps solely through emergency livelihood strategies and asset liquidation. *Worse*: Households suffer from an extreme shortage of food and coping mechanisms, leading to starvation, death, destitution, and critically high acute malnutrition. Sample includes data for up to 50 IDA-eligible countries.

Figure 6 Fiscal accounts

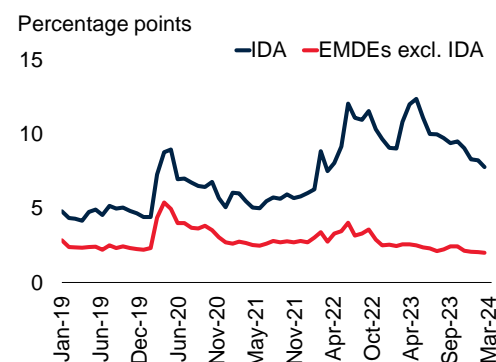
A. Government budget deficits



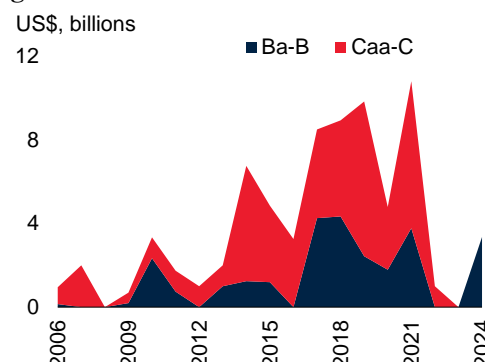
B. Government debt



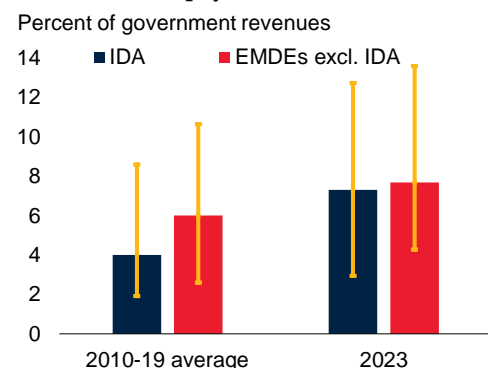
C. Sovereign spreads



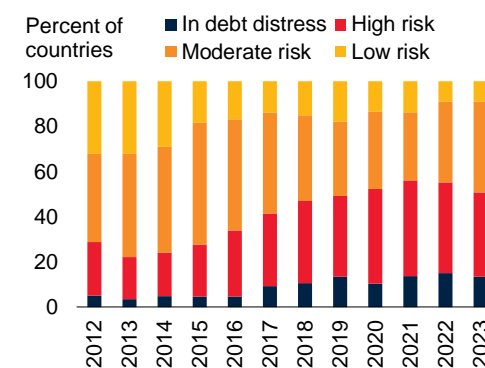
D. Government bond issuance by non-investment-grade IDA countries



E. Net interest payments



F. Risk of external debt distress in IDA countries



Sources: Dealogic; IMF-WEO (database); J.P. Morgan; Moody's Analytics; World Bank.

Note: EMDEs = emerging market and developing economies; FCS = IDA fragile and conflict-affected situations; IDA = IDA-eligible countries; LICs = IDA low-income countries.

A. Median general government net lending/borrowing for unbalanced sample of up to 74 IDA-eligible countries and 79 EMDEs excluding IDA.

B. Median general government gross debt for a sample of 67 IDA-eligible countries, 20 IDA LICs, 27 IDA FCS, 48 IDA commodity exporters, and 76 EMDEs excluding IDA.

C. Median of JP Morgan's Emerging Market Bond Index spreads (annual average) for an unbalanced panel of up to 13 IDA-eligible countries and 48 EMDEs excluding IDA. Last observation is March 31, 2024.

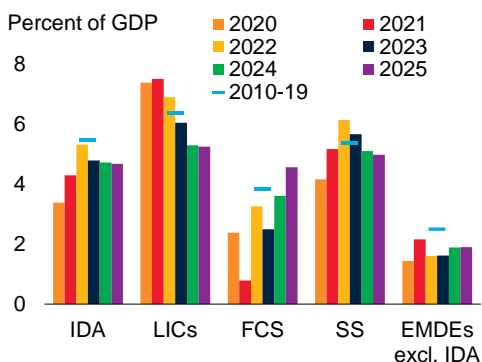
D. Panel shows rolling 12-month totals for bond issuance by IDA governments, categorized by Moody's long-term foreign currency sovereign credit ratings. Last observation is February 2024.

E. Net interest payments are the difference between primary balances and overall fiscal balances. Aggregates computed with government revenues in U.S. dollars as weights. Bars show simple average for up to 69 IDA-eligible countries and 71 EMDEs excluding IDA. Whiskers indicate interquartile range.

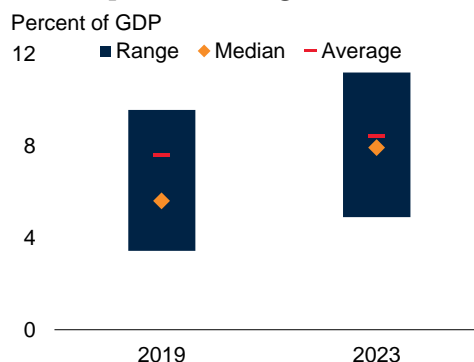
F. Share of IDA countries eligible to access the IMF's concessional lending facilities by level of external debt distress, based on IMF-World Bank Debt Sustainability (DSA) list as of November 2023. Unbalanced panel of up to 67 IDA-eligible countries. Eritrea is excluded due to lack of latest DSA. St. Lucia is excluded since it currently uses the IMF's Sovereign Risk and Debt Sustainability Framework for Market Access Countries.

Figure 7 External accounts

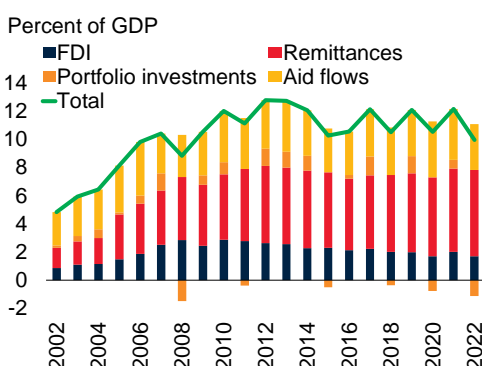
A. Current account deficits



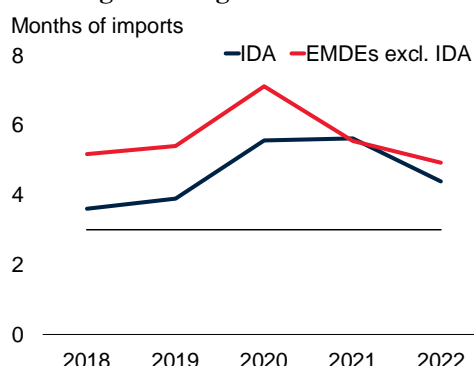
B. Gross public financing needs in IDA countries



C. Net financial flows in IDA countries



D. Foreign exchange reserves



Sources: IMF-WEO (database); OECD (database); UNCTAD, UNWTO; WDI (database); World Bank; World Bank-KNOMAD.

Note: EMDEs = emerging market and developing economies; FCS = IDA fragile and conflict-affected situations; FDI = foreign direct investment; IDA = IDA-eligible countries; LICs = IDA low-income countries; SS = IDA small states.

A. Sample includes 74 IDA, 25 IDA LICs, 32 IDA FCS, 24 IDA SS, and 78 EMDEs excluding IDA.

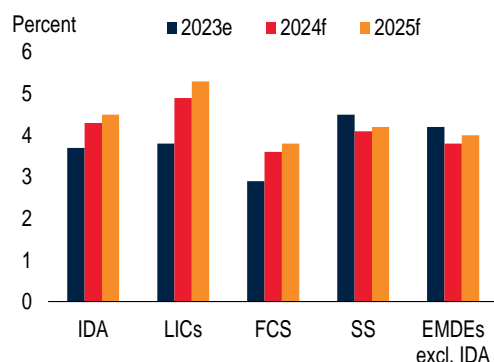
B. Sample includes 31 IDA countries.

C. Aid flows refers to total net official development assistance funding.

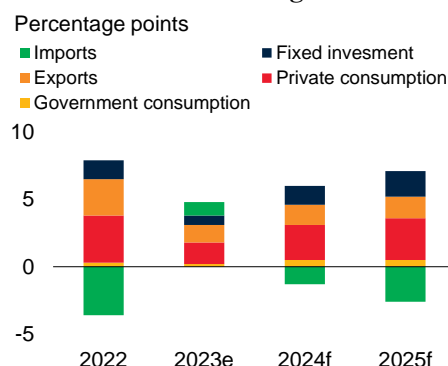
D. Median total reserves in months of imports for an unbalanced sample of 55 IDA countries and 49 EMDEs excluding IDA. Horizontal line shows three months of imports, often used as a proxy for minimum international reserves adequacy.

Figure 8 Near-term prospects

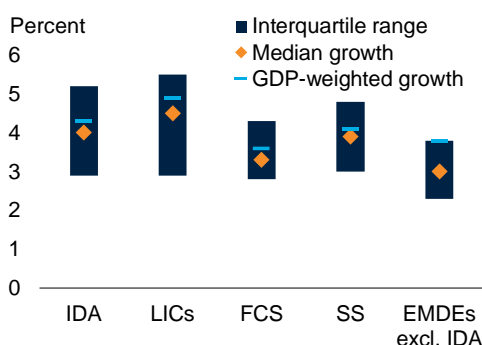
A. GDP growth



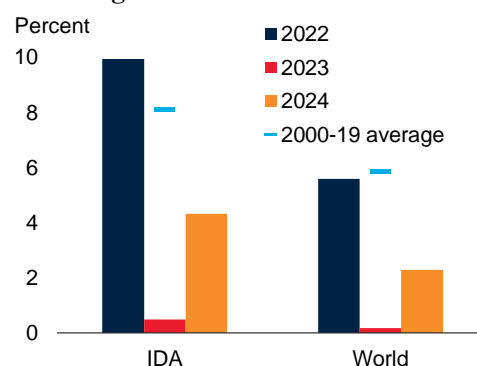
B. Contributions to GDP growth in IDA countries



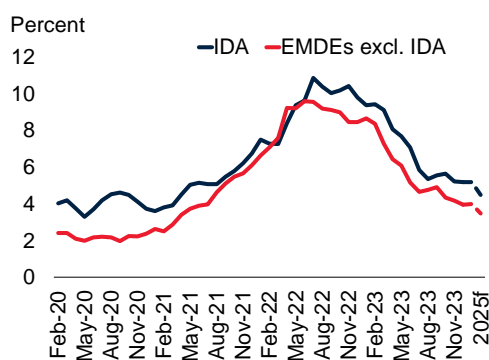
C. Growth across IDA countries: 2024



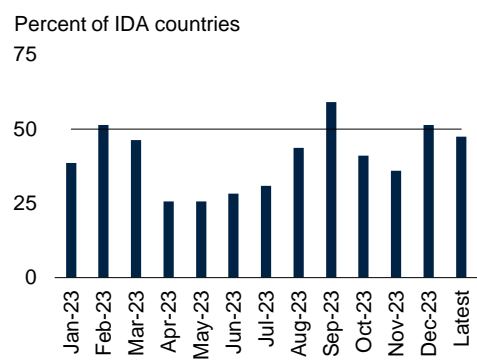
D. Trade growth



E. Headline consumer price inflation from 12 months earlier



F. Share of IDA countries with increasing monthly inflation



Sources: Haver Analytics; World Bank; World Bank Macro Poverty Outlook (database).

Note: e = estimate; f = forecast. EMDEs = emerging market and developing economies; FCS = IDA fragile and conflict-affected situations; IDA = IDA-eligible countries; LICs = IDA low-income countries; SS = IDA small states excluding Guyana. GDP aggregates calculated using real U.S. dollar GDP weights at average 2010-19 prices and market exchange rates.

B. 37 IDA countries report GDP component data, which is different from the number of countries reporting GDP level data. As such, GDP growth number derived from components differs from numbers presented in table A.1.

C. Bars show interquartile range, based on different IDA subgroups.

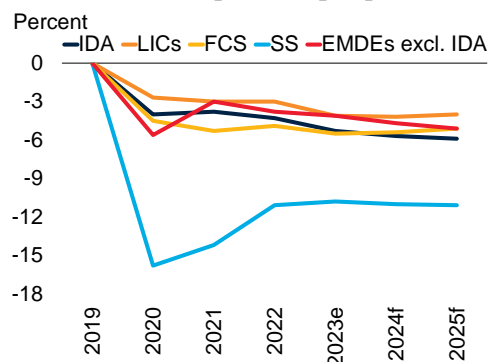
D. Trade is calculated as an average of exports and imports. World trade projections based on the January 2024 *Global Economic Prospects* report. IDA trade projections based on current World Bank projections.

E. Panel shows median year-on-year headline inflation. Unbalanced sample of up to 28 IDA-eligible countries and 54 EMDEs excluding IDA. Dotted line shows forecasts for 2024 and 2025 from World Bank Macro Poverty Outlook database.

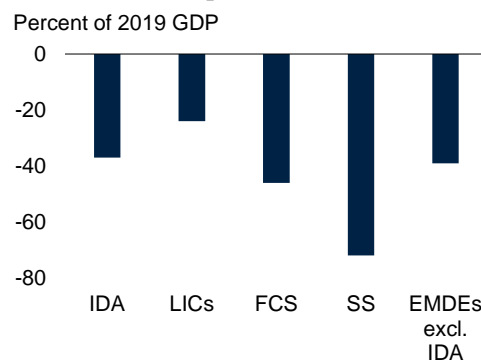
F. Inflation measured monthly on a year-on-year basis. Sample includes 38 IDA countries. Latest refers to January 2024.

Figure 9 Output losses and growth

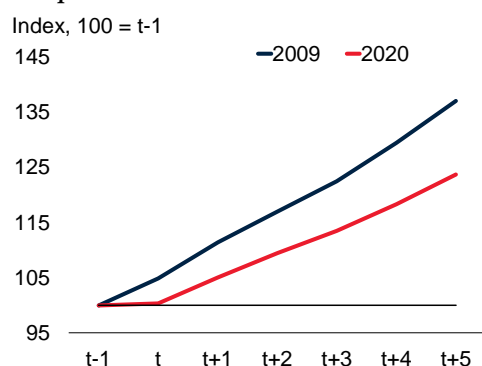
A. Deviation of output from pre-pandemic trends



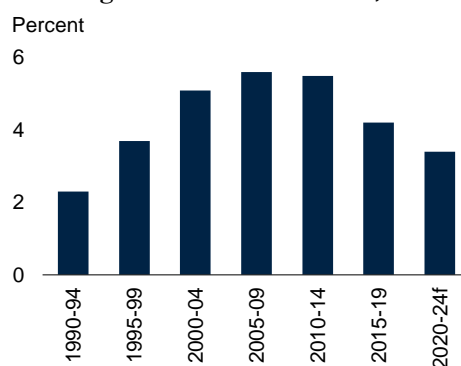
B. Cumulative output losses, 2020-25



C. Expansions after 2009 and 2020 in IDA countries



D. GDP growth in IDA countries, annual average



Source: World Bank.

Note: e = estimate; f = forecast. EMDEs = emerging market and developing economies; FCS = IDA fragile and conflict-affected situations; IDA = IDA-eligible countries; LICs = IDA low-income countries; SS = IDA small states. GDP aggregates calculated using real U.S. dollar GDP weights at average 2010-19 prices and market exchange rates.

A. Panel shows percent deviation between latest projections and forecasts from the January 2020 *Global Economic Prospects* report.

For 2023 and beyond, the January 2020 baseline is extended using projected growth for 2022.

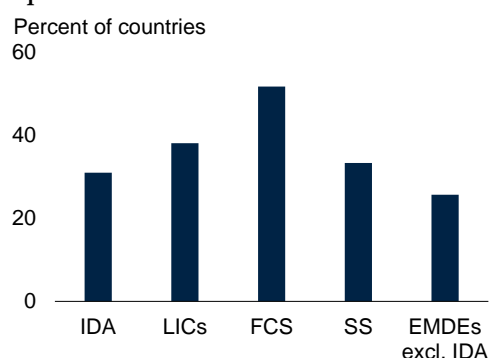
B. Panel shows output losses for IDA subgroups over 2020-25 relative to pre-pandemic trend as a percentage of

2019 GDP. Pre-pandemic trend based on January 2020 baseline extended using 2022 projections.

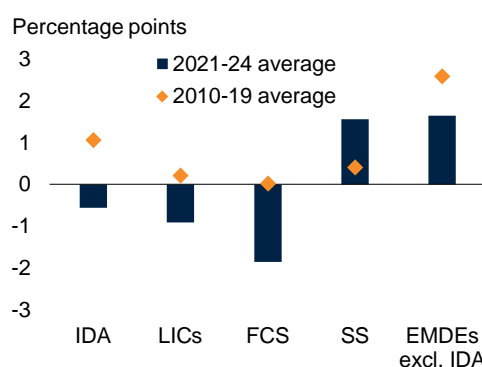
C. Indexes show the evolution of output in IDA-eligible countries around the global recessions of 2009 and 2020. "t" represents the year of the global recession.

Figure 10 Per capita income growth

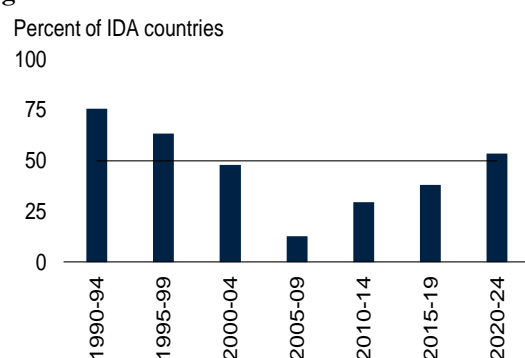
A. Share of IDA countries with lower GDP per capita in 2024 than in 2019



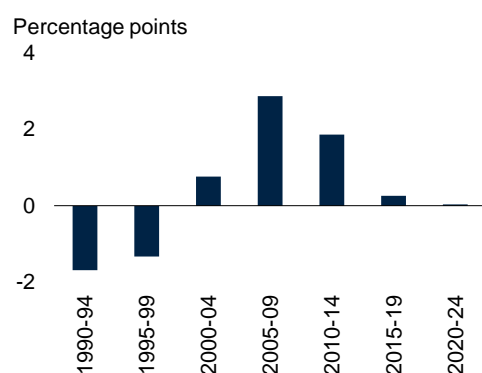
B. Annual change in GDP per capita growth in IDA countries relative to advanced economies



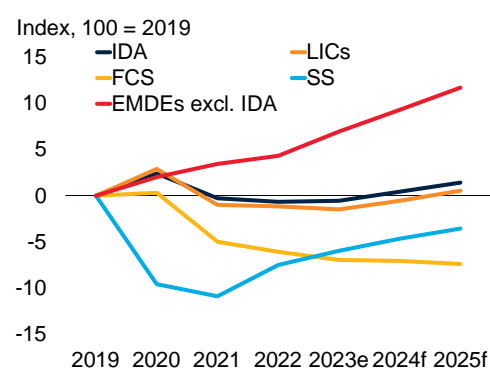
C. Share of IDA countries with GDP per capita growth lower than in advanced economies



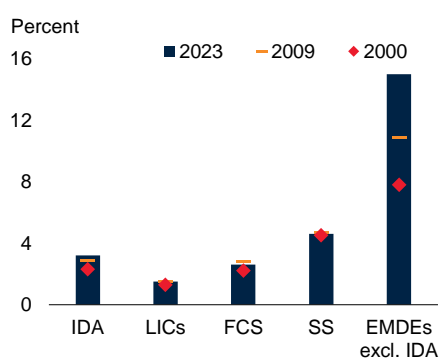
D. Change in GDP per capita growth in IDA countries relative to advanced economies



E. Cumulative change in per capita income growth relative to advanced economies



F. Per capita income levels in IDA countries relative to advanced economies



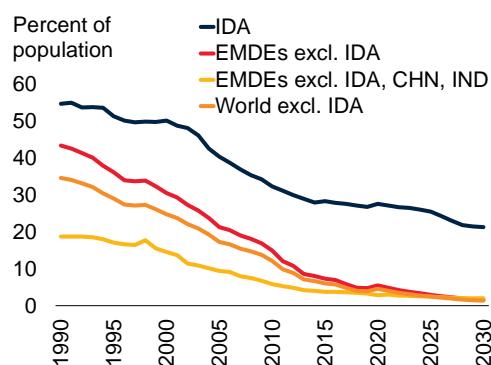
Source: World Bank.

Note: EMDEs = emerging market and developing economies; FCS = IDA fragile and conflict-affected situations; IDA = IDA-eligible countries; LICs = IDA low-income countries; SS = IDA small states. GDP aggregates calculated using real U.S. dollar GDP weights at average 2010-19 prices and market exchange rates. Sample includes 71 IDA countries.

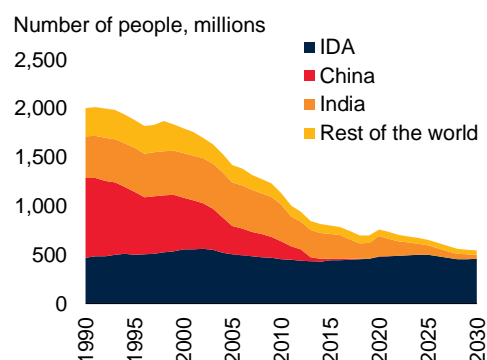
F. Per capita income in IDA subgroups as percent of advanced-economy per capita income.

Figure 11 Extreme poverty

A. Extreme poverty in percent of population: 1990-2030



B. Extreme poverty in absolute terms: 1990-2030



Sources: Mahler and Lakner (2022); World Bank Poverty and Inequality Platform; World Bank.

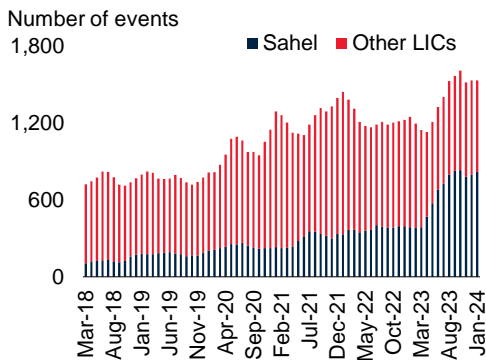
Note: = estimate; f = forecast. CHN = China; EMDEs = emerging market and developing economies; FCS = IDA fragile and conflict-affected situations; IDA = IDA-eligible countries; IND = India; LICs = IDA low-income countries; SS = IDA small states. GDP aggregates calculated using real U.S. dollar GDP weights at average 2010-19 prices and market exchange rates.

A. Sample includes up to 75 IDA countries, and 83 EMDEs excluding IDA. World includes 158 countries.

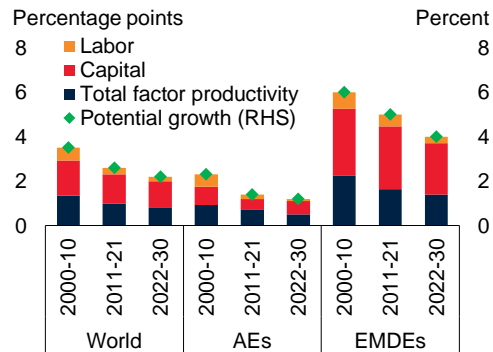
B. Sample includes up to 75 IDA countries. Rest of the world includes 81 countries.

Figure 12 Risks

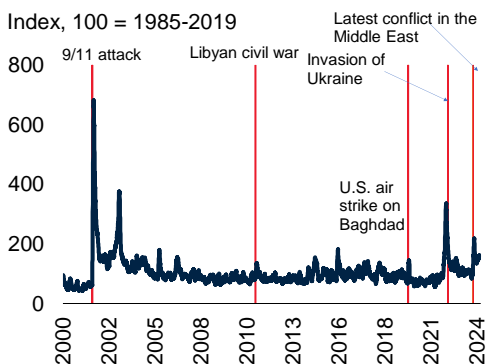
A. Violent events in low-income countries



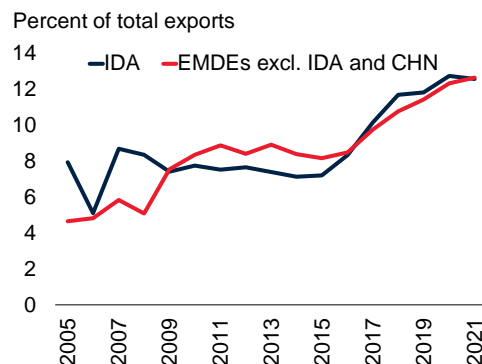
B. Potential growth



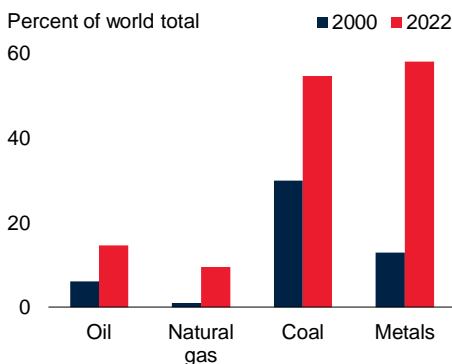
C. Geopolitical risk index and conflicts



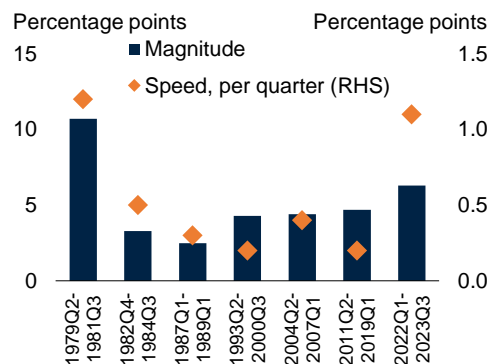
D. Exports to China



E. China's consumption of commodities



F. U.S. real interest rate cycle



Sources: ACLED (database); BP Statistical Review; Caldara and Iacoviello (2022); Federal Reserve Bank of St. Louis; International Debt Statistics (database); Kose and Ohnsorge (2023); Refinitiv US, LLC; World Bank.

Note: AEs = advanced economies; CHN = China; EMDEs = emerging market and developing economies; IDA = IDA-eligible countries; LICs = low-income countries. B. Panel shows GDP-weighted averages of production function-based potential growth estimates for 29 advanced economies and 53 EMDEs, as in Kose and Ohnsorge (2023). Data for 2022-30 are forecasts.

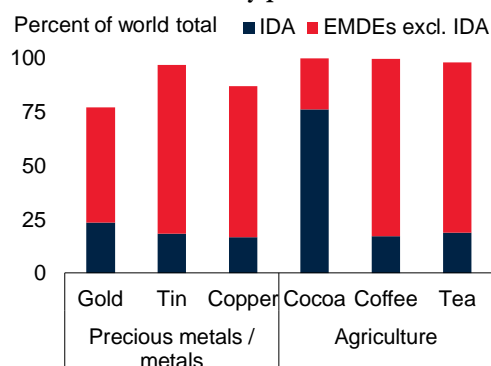
C. Geopolitical risk index reflects an automated text-search of electronic articles from 10 newspapers on adverse geopolitical events. Last observation is February 26, 2024. Red vertical lines show adverse geopolitical events. The index is normalized to 100 throughout the 1985–2019 period.

D. Panel shows share of goods exports destined for China. Last observation is 2021.

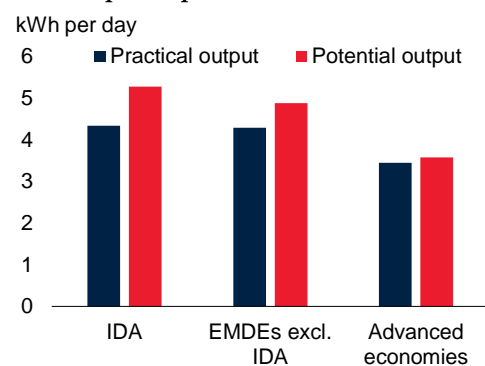
F. “Magnitude” is trough-to-peak change and “speed” is average change per quarter during periods of rising real rates. Real rate is U.S. policy rate minus one-year-ahead expected inflation from consumer surveys, adjusted for persistent errors.

Figure 13 Demographic and resource dividends

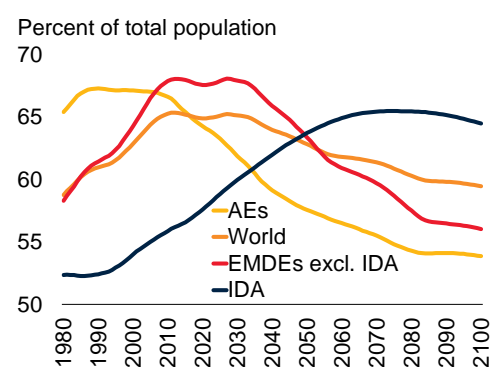
A. Share in commodity production



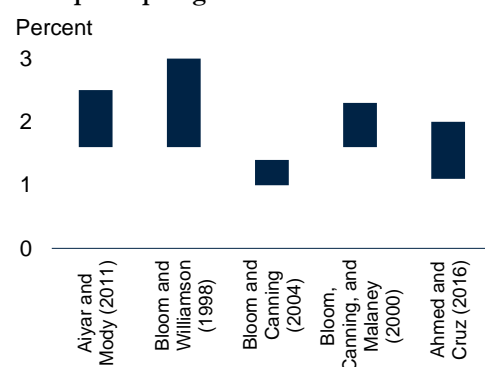
B. Solar power potential



C. Working-age population



D. Impact of increase in working-age population on GDP per capita growth



Sources: Energy Institute; Food and Agriculture Organization of the United Nations; International Cocoa Organization; Refinitiv US; UN (2022a); USDA; World Bank; World Economic Forum.

Note: AEs = advanced economies; EMDEs = emerging market and developing economies; IDA = IDA-eligible countries.

A. Shares denote three-year averages during 2021-23 for precious metals, metals, and cocoa, 2022-24 for coffee, and 2019-21 for tea.

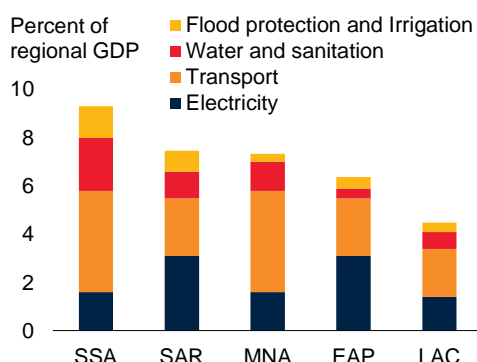
B. Practical photovoltaic (PV) output is defined as the PV power output of a PV system (specific yield); in this panel, measurement is the long-term power output produced by a utility-scale installation of mono-facial modules fixed mounted at an optimum tilt, measured in kWh/kWp/day, excluding land with identifiable physical obstacles to utility-scale PV plants. Potential PV output is defined as global horizontal irradiance, the long-term amount of solar resource available on a horizontal surface on Earth, measured in kWh/m²/day, disregarding any land-use constraints. Data from March 2020.

C. Population-weighted averages. Working-age population is defined as people aged 15-64. Population projections come from the UN World Population Prospects database.

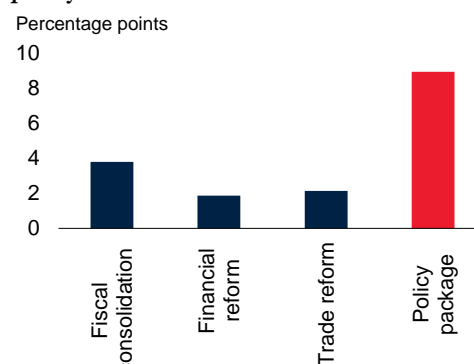
D. Panel shows the impact on GDP per capita growth of a one percentage-point increase in the share of working-age population. Study samples vary: Aiyar and Mody (2011) cover Indian states from 1961-2001; Bloom and Williamson (1998) examine 78 countries between 1965 and 1990; Bloom and Canning (2004) analyze over 70 countries from 1965 to 1995; Bloom, Canning, and Malaney (2000) focus on 70 countries during 1965-1990; and Ahmed and Cruz (2016) study 160 countries from 1960 to 2010. Bars show range of estimates.

Figure 14 Investment needs and accelerations

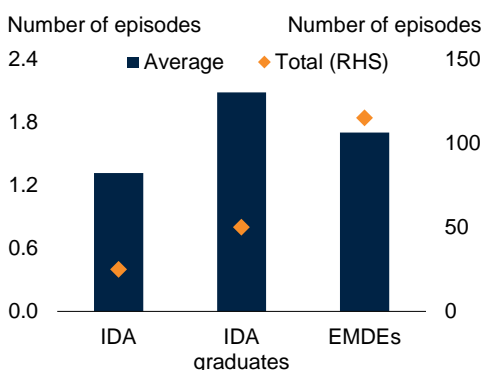
A. Infrastructure investment needs



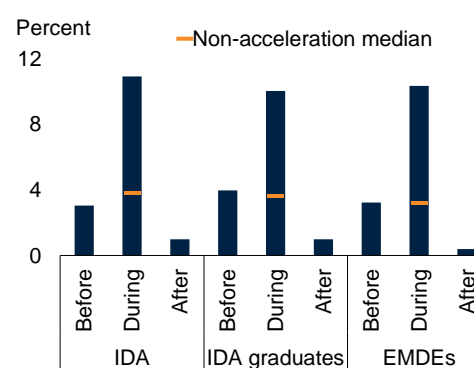
B. Probability of investment accelerations due to policy interventions



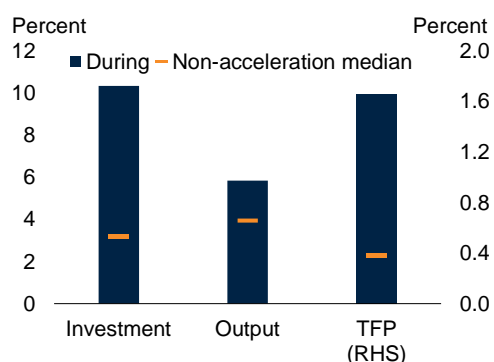
C. Number of investment accelerations



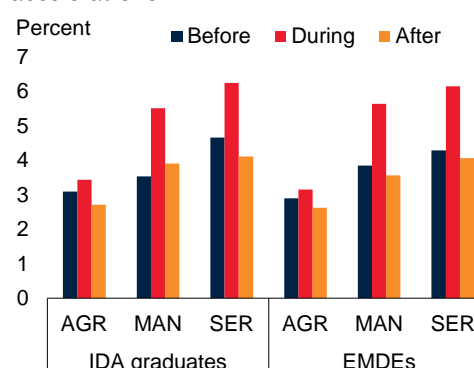
D. Investment growth during investment accelerations



E. Growth during investment accelerations



F. Sectoral output growth during investment accelerations



Sources: Dieppe (2021); Feenstra, Inklaar, and Timmer (2015); Rozenberg and Fay (2019); Stamm and Yu (2024); WDI (database); World Bank.

Notes: AGR = agriculture; EAP = East Asia and Pacific; ECA = Europe and Central Asia; EMDEs = emerging market and developing economies; IDA = IDA-eligible countries; LAC = Latin America and the Caribbean; MAN = manufacturing; MNA = Middle East and North Africa; SAR = South Asia; SER = services; SSA = Sub-Saharan Africa; TFP = total factor productivity.

A. Average annual investment costs by sector and region for the preferred scenario, 2015-2030, as in Rozenberg and Fay (2019).

B. Result of a one standard deviation increase by policy reforms on the predicted probability of an investment acceleration, see World Bank (2024).

C. Bars show the average number of investment accelerations per country over the period 1950-2022, while markers show the total number of episodes for each group between 1950-2022. Sample includes 19 IDA economies, 24 IDA graduates, and 69 EMDEs.

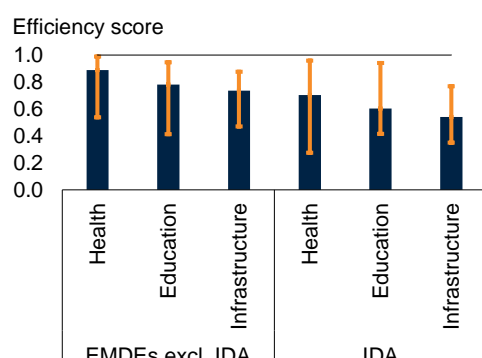
D-F. Bars show the median growth rates of investment, output, and TFP during accelerations in EMDEs. Sample includes 15 IDA countries, 24 (23 for panel F.) IDA graduate countries, and 59 (56) EMDEs that experienced an investment acceleration between 1950 and 2022.

D.F. At the 10 percent confidence level, differences between before, during, and after periods are statistically significant with the exception of the period before and during an investment acceleration in the agriculture sector.

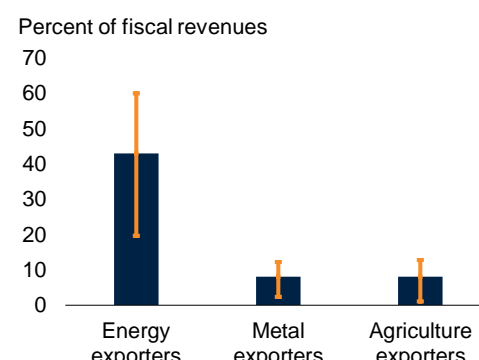
E. Orange lines show the median growth rates during all non-acceleration years.

Figure 15 Fiscal and monetary policy challenges

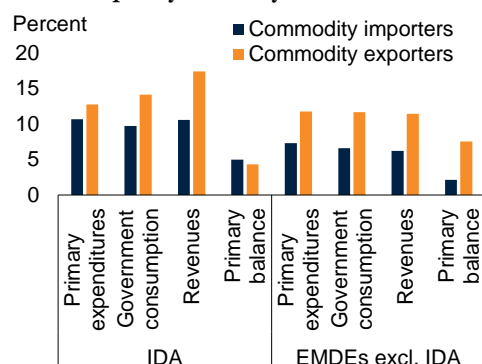
A. Public spending efficiency score



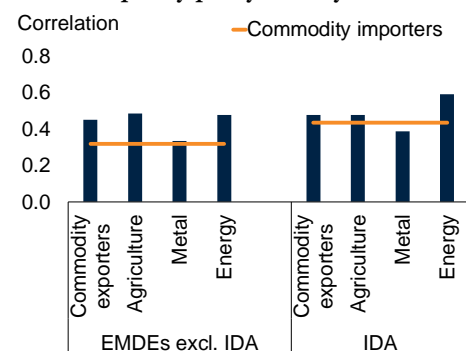
B. Resource revenues as a share of total fiscal revenues across IDA countries



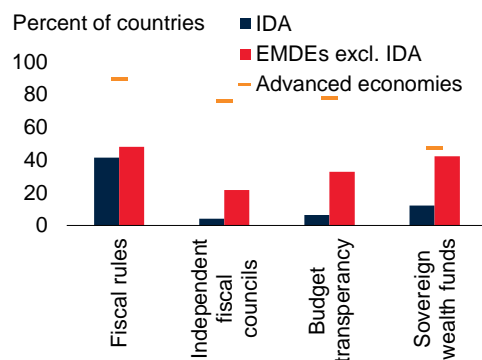
C. Fiscal policy volatility



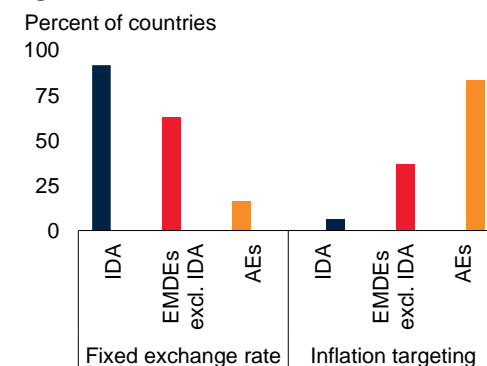
D. Fiscal policy procyclicality



E. Fiscal institutions



F. Fixed exchange rate and inflation targeting regime



Sources: AREAER (database); Arroyo Marioli, Fatás, and Vasishtha (2023); Arroyo Marioli and Vegh (2023); Davoodi et al. (2022); Herrera et al. (forthcoming); IMF Fiscal Council (dataset); IMF Fiscal Rules (dataset); IMF-WEO (database); Kose et al. (2021; 2022); Open Budget Surveys 2021; UNU-WIDER; World Bank.

Note: AEs = advanced economies; EMDEs = emerging market and developing economies; IDA = IDA-eligible countries.

A. Average efficiency scores for up to 69 IDA-eligible countries and 77 EMDEs excluding IDA over 2010–20 from Herrera et al. (forthcoming). Whiskers show minimum–maximum values. Horizontal line is the efficiency frontier.

B. Panel shows unweighted averages for 9 energy, 9 metals, and 10 agricultural commodity exporters, as of 2018. Whiskers show interquartile range.

C. Panel shows unweighted averages, by commodity group, of the standard deviation of the residuals obtained from regressing four dependent variables—real primary expenditure growth, real government consumption growth, real revenue growth, and change in primary balances (as percent of GDP)—on real GDP growth. Annual data over 1990–2021.

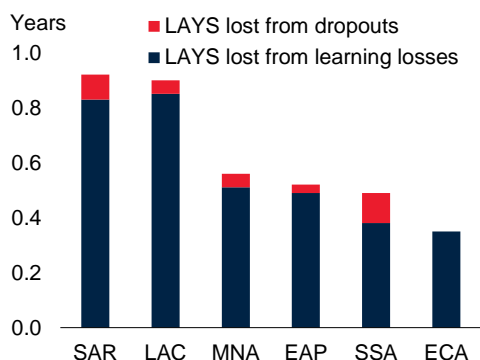
D. Bars show average correlation between the (Hodrick–Prescott–filtered) cyclical components of real GDP and real government spending within groups. Sample period is 1980–2020.

E. Sample of 75 IDA, 79 EMDEs excluding IDA, and 38 AEs for fiscal rules and independent fiscal councils; 47 IDA, 55 EMDEs excluding IDA, and 18 AEs for budget transparency; and 74 IDA, 78 EMDEs excluding IDA, and 38 AEs for sovereign wealth funds.

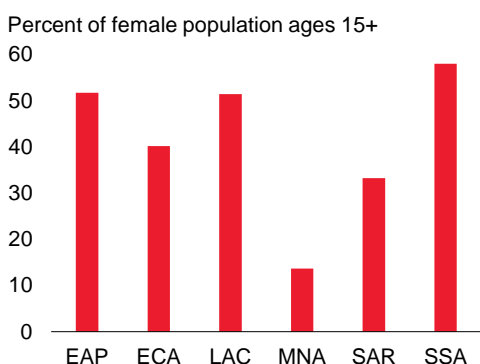
F. Panel shows fixed exchange rate regime and inflation targeting regime. Sample includes 75 IDA, 78 EMDEs excluding IDA, and 37 advanced economies. Inflation targeting data are for 2021.

Figure 16 Learning losses and gender gaps

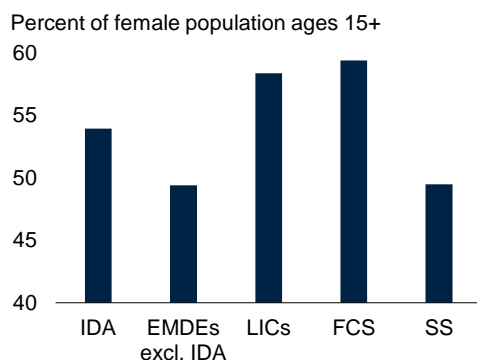
A. Learning losses



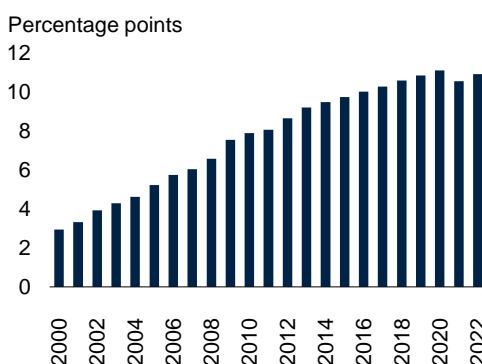
C. Female labor force participation in IDA countries, by region



B. Female labor force participation in IDA countries



D. Difference in female-to-male labor force participation rates between advanced economies and IDA countries



Sources: Gender Data Portal; Schady et al. (2023); WDI (database); World Bank.

Note: EAP = East Asia and Pacific; ECA = Europe and Central Asia; EMDEs = emerging market and developing economies; IDA = IDA-eligible countries; LAC = Latin America and the Caribbean; LAYS = Learning-adjusted years of schooling; MNA = Middle East and North Africa; SAR = South Asia; SS = small states; SSA = Sub-Saharan Africa.

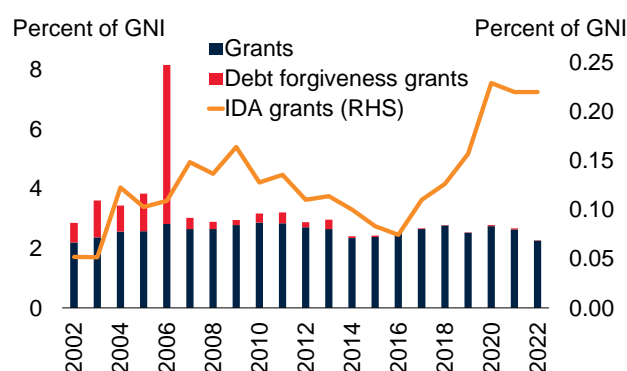
A. Panel shows the average lost LAYS by World Bank region, weighted by population. Regional averages exclude high-income countries. For each country, lost LAYS are calculated for each level of schooling and then averaged across levels, weighted by the duration of each level, as shown in Schady et al. (2023).

C. Panel shows IDA subgroups. Data are ILO modeled for female of ages 15+.

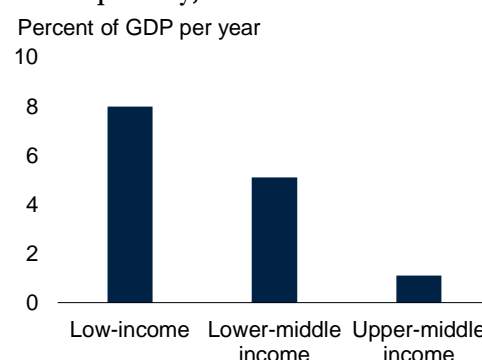
D. Panel shows difference in the average ratio of female-to-male labor force participation rate between advanced economies and IDA-eligible countries. Unbalanced sample includes up to 36 advanced economies and 75 IDA countries.

Figure 17 Global support

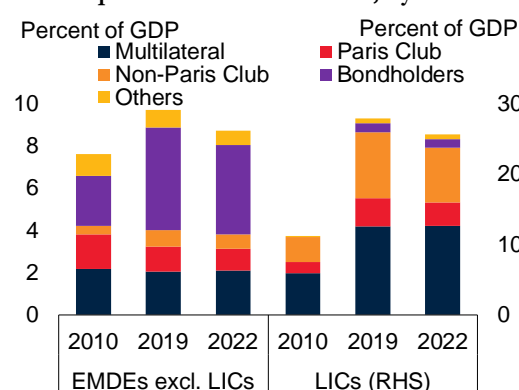
A. Grants received by IDA countries



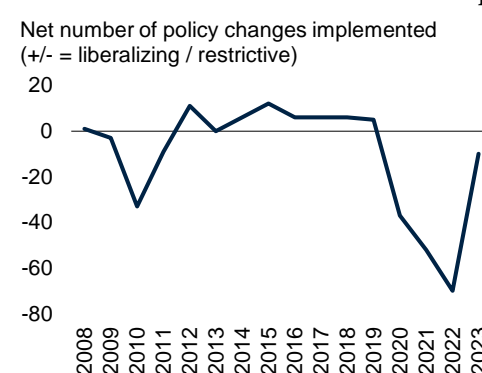
B. Investment needs for a resilient and low-carbon pathway, 2022-30



C. Composition of external debt, by creditor



D. Policies to liberalize or restrict food exports



Sources: Global Trade Alert (database); International Debt Statistics (database); World Bank (2022a and 2022f); World Bank.

Note: EMDEs = emerging market and developing economies; GNI = gross national income; IDA = IDA-eligible countries; LICs = low-income countries.

A. Grants are defined as legally binding commitments allocating specific funds for disbursement without any requirement for repayment. Technical cooperation grants are included. Debt forgiveness grants data cover both debt cancelled by agreement between debtor and creditor and a reduction in the net present value of non-Official Development Assistance debt achieved by concessional rescheduling or refinancing. Data are on a disbursement basis and cover flows from all bilateral and multilateral donors. IDA grants are net disbursements of grants from IDA.

B. Bars show estimates of the annual investment needs to build resilience to climate change and put countries on track to reduce emissions by 70 percent by 2050. Depending on data availability, estimates include investment needs related to transport, energy, water, urban adaptations, industry, and landscape.

C. Panel shows U.S. dollar GDP weighted average of public and publicly guaranteed external debt. "Others" includes multiple lenders.

D. Net number of policy changes is "liberalizing" changes minus "harmful" changes. Export policies are those concerning export taxes, export bans, export licensing requirements, export quotas, and export-related non-tariff measures. Data include changes relating to 33 three-figure central product classification codes pertaining to edible agricultural commodities and food items.

Appendix

Table A.1 Characteristics of IDA countries

Countries	IDA- only 60	IDA- blend 15	Low-income countries 25	Agriculture exporters 28	Commodity exporters 52	Metal exporters 17	Oil exporters 10	Energy exporters 11	Small states 24	FCS 33	Tourism- reliant 15
Afghanistan	X		X							X	
Bangladesh	X										
Benin	X			X	X						
Bhutan	X				X	X		X	X		
Burkina Faso	X		X		X	X				X	
Burundi	X		X	X	X					X	
Cabo Verde		X		X	X				X		X
Cambodia	X										X
Cameroon		X			X		X	X		X	
Central African Republic	X		X		X	X				X	
Chad	X		X	X	X		X	X		X	
Comoros	X			X	X				X	X	
Congo, Dem. Rep.	X		X		X	X				X	
Congo, Rep.		X			X		X	X		X	
Côte d'Ivoire	X			X	X						
Djibouti	X								X		
Dominica		X							X		X
Eritrea	X		X		X	X				X	
Ethiopia	X		X	X	X					X	
Fiji		X		X	X				X		X
Gambia, The	X		X	X	X				X		X
Ghana	X				X		X	X			
Grenada		X							X		X
Guinea	X				X	X					
Guinea-Bissau	X		X	X	X				X	X	
Guyana	X				X		X	X	X		
Haiti	X									X	
Honduras	X			X	X						
Kenya		X		X	X						
Kiribati	X								X	X	
Kosovo	X				X	X				X	
Kyrgyz Republic	X				X	X					
Lao PDR	X			X	X						
Lesotho	X								X		
Liberia	X		X		X	X					
Madagascar	X		X	X	X						X
Malawi	X		X	X	X						
Maldives	X								X		X
Mali	X		X	X	X					X	
Marshall Islands	X								X	X	X

Mauritania	X				X	X					
Micronesia, Fed. Sts.	X							X	X	X	
Mozambique	X		X		X	X				X	
Myanmar	X				X		X	X		X	
Nepal	X										
Nicaragua	X			X	X						
Niger	X		X		X	X				X	
Nigeria		X			X		X	X		X	
Pakistan		X									
Papua New Guinea		X			X	X				X	
Rwanda	X		X	X	X						
Samoa	X							X		X	
São Tomé and Príncipe	X			X	X			X	X		
Senegal	X			X	X						
Sierra Leone	X		X		X	X					
Solomon Islands	X			X	X			X	X		
Somalia	X		X							X	
South Sudan	X		X		X		X	X		X	
Sri Lanka	X										
St. Lucia		X						X		X	
St. Vincent and the Grenadines		X						X		X	
Sudan	X		X	X	X	X				X	
Syrian Arab Republic	X		X							X	
Tajikistan	X			X	X	X					
Tanzania	X			X	X						
Timor-Leste		X			X		X	X	X	X	
Togo	X		X	X	X						
Tonga	X							X		X	
Tuvalu	X							X	X		
Uganda	X		X	X	X						
Uzbekistan		X		X	X						
Vanuatu	X							X		X	
Yemen, Rep.	X		X		X		X	X		X	
Zambia	X				X	X					
Zimbabwe		X		X	X					X	

Sources: UN World Tourism Organization; World Bank.

Note: FCS = fragile and conflict-affected situations. Tourism-reliant countries are those with inbound tourism expenditure as a share of GDP during 2015-19 above the third quartile of the share in all EMDEs, based on UN World Tourism Organization data. Agriculture-exporting and energy-exporting economies are those where exports of agriculture or energy commodities accounted for 20 percent or more of total exports, on average, in 2017-19. Economies that meet these thresholds as a result of re-exports are excluded.

Table A.2 IDA graduates

IDA graduate	Fiscal year of last IDA credit on initial graduation	"Reverse graduation" – year of re-entry	Other notes
Albania	FY08		
Angola	FY14		
Armenia	FY14		
Azerbaijan	FY11		
Bolivia	FY17		
Bosnia and Herzegovina	FY14		
Botswana	FY74		
Cameroon	FY81	FY94	
Chile	FY61		<i>High-income country</i>
China	FY99		
Colombia	FY62		
Congo, Rep.	FY82	FY94	
Costa Rica	FY62		
Cote D'Ivoire	FY73	FY92	
Dominican Republic	FY73		
Ecuador	FY74		
Egypt, Arab Rep.	FY81; FY99	FY91	Re-entered FY91; graduated again FY99
El Salvador	FY77		
Equatorial Guinea	FY93		Remained eligible until graduating from IDA in FY99
Eswatini	FY75		
Georgia	FY14		
Honduras	FY80		
India	FY14		
Indonesia	FY80; FY08	FY99	Re-entered FY99; graduated again FY08
Jordan	FY78		
Korea, Rep.	FY73		<i>High-income country</i>
Mauritius	FY75		
Moldova	FY20		
Mongolia	FY20		
Montenegro	FY08		Graduated from IDA as of July 6, 2007 (date of approval of the last IDA credit - delay from FY07)
Morocco	FY75		
Nicaragua	FY81	FY91	
Nigeria	FY65	FY89	
North Macedonia	FY02		
Papua New Guinea	FY83	FY03	Became blend in 2003
Paraguay	FY77		
Philippines	FY79; FY93	FY91	Re-entered FY91; graduated again FY93
Serbia	FY08		
Sri Lanka	FY17	FY23	
St. Kitts	FY94		<i>High-income country</i>
Syrian Arab Republic	FY74	FY17	
Thailand	FY79		
Tunisia	FY79		
Türkiye	FY73		
Vietnam	FY17		

Zimbabwe	FY83	FY92	
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Sources: IDA-World Bank (International Development Association); World Bank Open Data.

Notes: Table shows the last IDA fiscal year in which an IDA country graduated from the IDA-eligible list, and the year it re-entered the list if applicable. IDA fiscal years run from July to June. In total, 36 countries have successfully graduated from IDA: their graduations from IDA remain effective. The 10 countries which have “reverse graduated” remain IDA-eligible.

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