Paper on the Decisions to Support the AIIB COVID-19 Crisis Recovery Facility
April 16, 2020

I - The Crisis:

A. The COVID-19 Pandemic

1. Significant negative social, economic and financial impacts. The unfolding Coronavirus Disease 2019 (COVID-19) pandemic presents an unprecedented global challenge and has widespread and severe negative social, economic and financial impacts. The increasing breadth, depth and duration of the pandemic have placed significant pressures and strains on health care infrastructure, systems and supply chains. This has increased the risk of loss of life and suffering faced by people around the world. Meanwhile, the policy measures put in place to contain the pandemic—while necessary—have resulted in sharp and sudden reductions in economic activities. Correspondingly, uncertainties over the pandemic and economic growth have heightened financial market volatilities and increased liquidity pressures, which further intensify the economic downturn.

2. Considerable uncertainties around recovery. There remain considerable uncertainties as to how the pandemic could be effectively contained and how quickly economies and financial markets could recover. The longer it takes to “flatten the curve” and contain the pandemic, the higher the risk and likelihood that the public health crisis will become a deep economic and financial crisis, where long-lasting and structural negative impacts would result in a slow and protracted recovery.

3. All economies will be affected, with developing economies being more vulnerable. As of March 23, 2020, the International Monetary Fund’s (IMF) global growth outlook for 2020 is negative—a recession at least as bad as the global financial crisis in 2008-2009 or worse. All economies are expected to be impacted, even those not directly affected by the COVID-19 pandemic, given the disruptions in trade, tourism, transport and financial markets. IMF Managing Director Kristalina Georgieva also pointed out that “advanced economies are generally in a better position to respond to the crisis, but emerging
markets and low-income countries face significant challenges."¹ This is especially true if the developing economies have weak health care infrastructure and systems, weaknesses in macroeconomic and financial sector fundamentals, high dependence on tourism, oil exports and/or remittances, and a highly interconnected supply chain for essential supplies including food.

4. Uneven policy responses, necessitating international support especially for developing economies. In addition, while many advanced economies have taken bold fiscal and monetary policy actions ("whatever it takes"), developing economies generally do not have the fiscal or market space for a similar scale of response. Without adequate policy responses and additional financing, developing economies—particularly those with lower debt capacities—will suffer from disproportionately larger social and economic damage due to the COVID-19 pandemic. This increases the need and urgency for international responses in supporting the developing economies.

II - The Responses

B. The Global Responses

5. Coordinated efforts. International financial institutions (IFIs), including AIIB, have undertaken initial concerted efforts to provide strong, coordinated support to countries and private sector entities affected by COVID-19. In line with the G20’s call to international organizations and multilateral and regional development banks to support emerging and developing countries facing the health, economic and social shocks of COVID-19, there is consistent recognition across IFIs that extraordinary measures are needed during these special circumstances.

6. Sizeable financing packages. Several multilateral development banks (MDBs) have announced emergency response packages to support their members and clients who are affected by the crisis. For example, as of Apr. 15, 2020, the World Bank Group has announced USD14 billion in financing, including USD6 billion from the World Bank (WB) and USD8 billion from the International Finance Corporation (IFC). Meanwhile, the Asian Development Bank (ADB) has pledged USD20 billion, the European Bank for

Reconstruction and Development (EBRD) EUR1 billion, the Islamic Development Bank (IsDB) USD2.3 billion and the Inter-American Development Bank (IADB) USD3.2 billion.

7. **Shared goals and principles.** While each institution operates within their respective mandate and strives to utilize their existing strengths where possible, all institutions share the common goal of containing the COVID-19 pandemic as fast as possible and mitigating long-lasting/structural impacts on economies as effectively as possible. Given the evolving nature of the crisis, measures have been designed to be flexible and innovative in their scope and approach so as to remain responsive to emerging demands. In addition, given the urgency of the crisis, efforts have also been made to streamline internal processes, such as through delegation of decision-making authority and simplified/shortened processing without compromising on quality, to facilitate speedier approvals and faster disbursement.

B. **AIIB Members’ Current Needs**

8. To date, AIIB has received requests for financing in response to COVID-19 by a number of members and has engaged in conversation with many more. In general, the demand can be largely grouped into three categories:

8.1. **Emergency public healthcare financing,** including upgrading of hospitals, strengthening of disease detection capacity, and provision of health care equipment, such as personal protective equipment (PPE) and ventilators. Demand also includes strengthening of the medium- to long-term response capacity of the member’s health systems and training for its centers for disease control.

8.2. **Immediate fiscal and budgetary support to meet the financing gap** arising from increased budget expenditure and reduced fiscal revenue.

8.3. **Short- to medium-term financing for infrastructure and productive sectors** to help mitigate liquidity constraints and offset other negative impacts due to the pandemic.

III - **AIIB’s Response: the COVID-19 Crisis Recovery Facility**

C. **Objectives**

9. **AIIB announced a new COVID-19 Crisis Recovery Facility (the Facility) in order to react effectively to the fast-evolving situation and respond flexibly and efficiently to client**
demands. The Facility demonstrates that AIIB is agile in dealing with external shocks and adaptable and responsive to the changing needs of its clients.

10. The Facility has been designed in such a way as to meet both purposes of the AIIB Articles of Agreement, which are to: (i) foster sustainable economic development, create wealth and improve infrastructure connectivity in Asia by investing in infrastructure and other productive sectors; and (ii) promote regional cooperation and partnership in addressing development challenges by working in close collaboration with other multilateral and bilateral development institutions.

D. Principles

11. The Facility is not a formal structure but a term that describes and encompasses all financings AIIB would undertake to assist its members in mitigating the impact of and recovery from COVID-19. The Financings under the Facility are governed by existing AIIB policies and additional decisions taken by the Board of Directors (Board) that are outlined in this paper. It will operate according to the following principles:

11.1. Projects considered under the Facility must be consistent with the purpose of the Bank as set out in Article 1.1 of its Articles of Agreement.

11.2. Quality and standards will not be compromised under Facility financing. Unless otherwise decided by the Board, all projects prepared under the Facility will be in accordance with existing policies approved by the Board. This includes, but is not limited to, the Operational Policy on Financing (OPF), the Procurement Policy (PP), the Environmental and Social Policy (ESP), the Policy on Public Information (PPI), the Operational Policy on International Relations (OP on IR), the Policy on the Project-affected People’s Mechanism (Policy on PPM), and the Policy on Prohibited Practices (PPP).

11.3. The Facility will operate for a specific duration of time in response to the current crisis and will be closed for the approval of new financings when the crisis winds down and as agreed by the Board. AIIB will return to its core focus, consistent with the draft Corporate Strategy and other approved sector strategies, once the Facility is closed.

11.4. Any member, regional or non-regional, would be eligible to benefit from financing under the Facility. This will require expansion of the scope of the eligibility of operations defined in the Strategy on Financing Operations in Non-Regional
Members. Other provisions of the Strategy, including the ceiling on investments in non-regional members as a share of total Bank financing and the preference for cofinancing with partner development finance institutions, will remain in place for the Facility. As set out in the Regulation on the Accountability Framework, all financings in non-regional members are required to be approved by the Board.

E. Modalities

12. **Duration.** Financings under the Facility will be considered during the 18 months to Oct. 16, 2021, reflecting the temporary nature of the increased flexibility that the Bank would provide during this crisis period. This time horizon can be extended by the Board of Directors depending on the actual development of the ongoing crisis. Management will prepare a progress report for the Board every three months during this period and will report to the Board on the effectiveness of the Facility once it is closed, working in collaboration with the Complaints-resolution, Evaluation and Integrity Unit. The Board of Directors will consider an interim review of its Decisions on the Facility at the earliest of

a) 12 months from the date of decision, b) total committed financing under the Facility having reached USD10 billion, or c) total committed financing under the terms of decision (iii) above having reached USD5 billion.

13. **Size and coverage.** The Facility will have an initial size of USD5-10 billion and, if necessary, this amount can be reviewed and increased in consultation with the Board. The Facility financings could be made for projects in the territory of any AIIB member and can be either Sovereign-backed or Non-sovereign-backed Financings. Priority will be given for low-income and middle-income countries.

14. **Scope.** To address the challenges of this crisis and the need for a rapid response to COVID-19 impacts, financings under the Facility can cover the following areas. While all of these areas are consistent with the AIIB’s Articles of Agreement, AIIB would not extend some of these types of financing under its current strategies and the ordinary course of its business:

14.1. **Financing of immediate health sector needs.** This financing would support needed emergency public health responses, including the development of health system capacity, and provision of essential medical equipment and supplies to combat COVID-19, and well as the long-term sustainable development of the health sector of the member.
14.2. **Economic resilience.** To mitigate the economic impact on AIIB members’ economies, the Bank would provide financing to supplement government productive expenditures to support the social and economic response and recovery. This includes not just investments in infrastructure but also social and economic protection to prevent long-term damage to the productive capacity of the economy. It would also protect and restore productive capital, including human capital.

14.3. **Financings to address liquidity constraints for clients in infrastructure and other productive sectors.** With such support, clients can overcome liquidity constraints and maintain critical long-term investments that may have to be curtailed, delayed or suspended in the absence of AIIB financing.

15. **Instruments.** Financing under the Facility can be made using any of the existing AIIB instruments, but may also require deployment of instruments not yet used by AIIB, as follows:

15.1. **Sovereign-backed or Non-sovereign-backed Financing for regular investment projects.** While AIIB is experienced in such financing, it normally requires preparation of new operations by clients, which will often be too slow to respond to their urgent needs in the current crisis. The exception could be lines of credit to financial intermediaries under Sovereign-backed or Non-sovereign-backed Financings which would build on the experience of AIIB’s financial intermediary operations, but in the current crisis could focus on the provision of working capital and liquidity support to the borrowing banks’ clients.

15.2. **Additional Sovereign-backed or Non-sovereign-backed Financing to add to ongoing operations,** building on existing client relationships and project structures. AIIB could facilitate faster disbursement of funds and scale-up activities that respond to the COVID-19 challenges through expanded retroactive financing, increased share of AIIB financing for a given project, and project scope expansion. Additional financing could also be provided for projects financed by other development partners, thus making use of the client relationships and project structures supported by trusted peer institutions.

15.3. **The World Bank’s Program-for-Results (PforR) and the Asian Development Bank’s Results-based lending (RBL) instruments are particularly suitable for financing government programs that consist of a large number of smaller expenditures, typical in the social sectors and local access to infrastructure services.** While AIIB does not have a separate policy framework for such financing, the Board
has decided that AIIB may cofinance such operations under Sovereign-backed Financings in accordance with the policy framework of the respective peer institution, in lieu of AIIB’s ESP and PP.

15.4. Finally, an important instrument to provide fast-disbursing fiscal resources in a situation of urgent need is policy-based financing. AIIB has no such financing instrument and does not intend to develop a policy allowing for such instrument to its financial products. However, due to the urgent needs of some clients, AIIB can exceptionally consider providing policy-based financing on a selective basis when AIIB is invited by the borrower to cofinance such lending with the WB and ADB and in coordination with the IMF. Cofinancing will be with the International Bank for Reconstruction and Development and ADB’s Regular Ordinary Capital Resources (OCR) and only for creditworthy countries with sound fiscal management and will be based on IMF assessment of debt and fiscal sustainability. Such operations require the application of the cofinancing MDB’s policy on such type of financing in lieu of the AIIB’s operational policies, such as the Operational Policy on Financing (OPF) as well as the ESP and PP. Policy-based financings will be subject to Board approval. At the same time, such policy-based financing will have a shorter maturity than AIIB’s ordinary financings to ensure that such lending does not crowd out long-term investment plans of AIIB.

16. Cofinancing of COVID-19 response projects with other MDBs, international organizations or development finance institutions. AIIB will respond to the calls from the Extraordinary G20 Leaders’ Summit to “further step up coordination of actions to support emerging and developing countries facing the health, economic, and social shocks of COVID-19.”² AIIB will, whenever feasible, cofinance Facility operations with partner MDBs, in particular when those operations lie outside the areas of AIIB’s own core capacities.

G. Streamlined Process

23. To facilitate accelerated processing, approval and implementation oversight of projects, a number of streamlined processes will be adopted by Management.

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24. **Operational streamlining.** Processing and approvals of projects under the Facility will be fast-tracked using simplified project processing (single IC review) and documentation templates. The latter will include streamlined and short project documents with standard sections across projects on crisis impact, project objective and description, project assessment and results framework. Project assessments, due diligence, and documentation will be focused on compliance with applicable policies (see paragraphs 25, 26 below) and (for Non-sovereign-backed Financings) credit risk analysis.

25. **ES Aspects under special circumstances for emergency public health projects.** ES assessment and due diligence activities will be phased depending on the needs and risks of the project and required processes, in accordance with the ESP, which allows for a phased approach in Situations of Urgent Need of Assistance. The ES documentation will be determined on a case-by-case basis and streamlined. This approach will allow for rapid and responsible application of the ESP. When cofinancing with development partners whose ES policies have already been found to be materially consistent with the ESP (including ADB, EBRD, IFC and WB), it will make use of their ES policies. In such cases, either the independent accountability mechanism of the cofinancing development partner will apply to Facility investment operations if a cofinancing framework with the cofinancier to this effect is in place, or the PPM will apply to the investment.

26. **Procurement Aspects and Retroactive Financing under special circumstances for emergency public health projects.** On procurement, there may be greater reliance on sole-sourcing, shopping and hands-on implementation support (especially in low-capacity environments), and simplified processes as permitted under the PP. The Bank recognizes that there may be a large share of retroactive financing under some Sovereign-backed Financings for emergency projects due to the urgency of deployment. The Bank will apply the Policy on Prohibited Practices mindful of special risks with regard to financings prepared under the Facility.

27. **Board consideration.** Management proposes to adopt accelerated processes for Board consideration of any project under the Facility, as provided for in the “special circumstances” provisions of Sections 3(c) and 4(g) of the Rules of Procedure of the Board of Directors. This would effectively shorten the requirement for circulating an agenda for a meeting and for circulating a paper to seven calendar days.