



Paper on AIIB's Approach to Emergency Response

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Abbreviations

ADB	Asian Development Bank
AIIB	Asian Infrastructure Investment Bank
BOD	AIIB Board of Directors
CERC	Contingent Emergency Response Component
CEIU	Complaints-resolution, Evaluation and Integrity Unit (AIIB)
Clients	Sovereign and Non-sovereign Borrowers
COVID-19	Coronavirus Disease 2019
CS	Corporate Strategy
CRW	International Development Association Crisis Response Window
ESF	AIIB Environmental and Social Framework
Facility	COVID-19 Crisis Recovery Facility
GRADE	Global Rapid Post-Disaster Damage Estimation
IDA	International Development Association
IFI	International Financial Institution
IMF	International Monetary Fund
MDB	Multilateral Development Bank
NSBF	Non-Sovereign Backed Financing
OPF	AIIB Operational Policy on Financing
PBF	Policy-Based Financing (WB)
PBL	Policy-Based Lending (ADB)
PBCF	Policy-Based Cofinancing
PDNA	Post-Disaster Needs Assessment
PDO	Project Development Objective
PP	AIIB Procurement Policy
SBF	Sovereign Backed Financing
SME	Small and Medium Enterprises
UN	United Nations
UNDP	United Nations Development Program
USD	United States Dollar
WB	World Bank

Summary

1. This paper presents the Asian Infrastructure Investment Bank's (AIIB's) overall approach for crises response, including a policy change as approved by the AIIB Board of Directors (BOD) on June 15, 2023 and presented in the accompanying "Decisions to Support AIIB's Policy-Based Cofinancing in Eligible Crises."^{1/}

2. AIIB's Corporate Strategy (CS) requires that "all AIIB investments ordinarily add value through one or more of the four thematic priorities: green infrastructure, connectivity and regional cooperation, technology-enabled infrastructure, and private capital mobilization." At the same time, the CS states that "in case extraordinary situations occur during the Strategy period, AIIB will adapt and respond with measured and time-bound actions, and as and when such situations resolve, return to its commitment to add value through its four thematic priorities." The capacity to offer extraordinary support in response to a crisis or emergency is a core function of the community of international financial institutions (IFIs), of which AIIB is a part.

3. One such extraordinary situation arose with the COVID-19 pandemic, for which AIIB introduced an ad-hoc, time- and crisis-specific COVID-19 Crisis Recovery Facility (Facility) in 2020 - the Bank's first emergency response instrument since its establishment. The Facility was designed only to apply to the COVID-19 pandemic crisis and would not cover other crises in the future. Yet while the COVID-19 pandemic is the first global crisis faced by Members since AIIB's founding, it will not be the last. Indeed, since the start of the pandemic, AIIB's Members have endured other crises, often with compounded impacts challenging their social and economic development efforts. In this crisis-prone world, it is anticipated that AIIB's sovereign and nonsovereign clients (Clients) will continue to be subject to a variety of crises and emergencies, such as natural and conflict-related disasters, public health emergencies and economic crises.

4. This paper outlines the principles for the Bank's overall approach to help Clients respond to and recover from future crises, and within it the rationale for extending Policy Based Cofinancing (PBCF) to Members in eligible crisis situations as elaborated in paras. 20 and 21. AIIB's approach builds on the lessons learned from AIIB's COVID-19 Crisis Recovery Facility (Facility), which reaffirms that a broader range of regular financing along with PBCF is needed to support Clients effectively and predictably in future crises. This approach also draws upon the considerable experience of crisis response at peer Multilateral Development Banks (MDBs) so that AIIB may better respond to Client demand for emergency support as part of an international coordinated financial response.

5. This paper has benefitted from the valuable guidance received from the BOD at a briefing on May 25, 2022, a Policy and Strategy Committee (PSC) discussion on Oct 25, 2022, a BOD Technical Briefing on Dec. 15, 2022, a BOD Discussion of the 2nd Interim Review of the Facility on February 15, 2023, and a BOD Discussion on AIIB's Approach to Emergency Response on March 15, 2023. AIIB has also incorporated feedback from AIIB clients, as well as inputs and ideas gathered from various internal and external stakeholders including the

^{1/} AIIB Board of Directors' Decisions to Support AIIB's Policy-Based Cofinancing in Eligible Crises

World Bank (WB) and Asian Development Bank (ADB). Accordingly, AIIB's approach to emergency response, as presented in this paper, is benchmarked against available crisis facilities at other MDBs and is by design more focused to reflect feedback from BOD members that AIIB should stick closely to its infrastructure-focused mandate, including in crisis situations.

6. AIIB's core focus is on achieving its CS goals and will prioritize regular financing in terms of both staff allocation and lending volumes. AIIB expects to meet most Client needs in crises using regular financing instruments in alignment with the Bank's CS goals. Additionally, recognizing the need to provide swift broad-based economic support to governments during crisis, AIIB shall continue deploying –when and as requested by Members– exceptional and timebound Policy-Based Cofinancing (PBCF)^{2/} with peer MDBs to enable regional and non-regional Members' swifter return to economic health. The application of PBCF to future eligible crises gives AIIB more options to join international coordinated efforts in crisis response by filling a gap in its financing instruments to provide Clients with immediate emergency support - notably countercyclical financing - in situations of extraordinary duress where infrastructure-focused financings may not otherwise be sufficient nor prioritized by its Clients.

A. Context

7. **Client Needs in an Increasingly Crisis-Prone World.** While the COVID-19 pandemic is the first global crisis faced by Members since AIIB's founding, it has not been the last; since then, AIIB's Clients have endured other crises or emergencies, often with compound impacts challenging their social and economic development efforts. In this crisis-prone world, and with the effects of climate change becoming steadily more severe, it is anticipated that AIIB Clients will continue to be subject to a variety of crises and emergencies, inter alia, pandemics, severe natural or conflict-related disasters, and energy and food insecurity. These crises may set back Members' development gains, as has happened with the COVID-19 pandemic. As is often the case, during a crisis: Clients face a challenging combination of short-term crisis needs and longer-term infrastructure development needs; disaster prevention and preparedness is lacking; the ability of economies to access international capital markets at affordable terms or rapidly raise domestic revenues is severely limited; and less-developed Member economies, women and other disadvantaged groups would be disproportionately affected given their greater vulnerabilities.

8. **Impact on Clients and AIIB Core Business.** Emergencies or crises impact AIIB's Clients directly by inflicting damage on infrastructure and other productive sectors, or indirectly when Clients prioritize immediate emergency support and channel resources or demand away from regular infrastructure operation, maintenance, and investment, resulting in delays or cancellations of ongoing or planned infrastructure investments. AIIB's appetite to provide regular financing for infrastructure projects remains high, but AIIB's investment portfolio may also be affected due to decreased Client demands for infrastructure project financing during crises and slower implementation, and hence disbursement of its ongoing projects.

^{2/} The acronym PBCF used in the paper refers to AIIB's Policy-Based Cofinancing, unless reference is made specifically to the Policy-Based Financing (PBF) of the World Bank or the Policy-Based Lending (PBL) of the Asian Development Bank (ADB).

9. **International Coordinated Financial Response.** The compounding crises over the past two years, exacerbated by the increasingly visible impacts of climate change and rising macroeconomic imbalances, have continued for a longer time than expected. This prompted the G20 Leaders to commit to explore ways to maximize MDBs' development impact,^{3/} and to support shareholders to help the MDBs as a system mount strong and rapid countercyclical responses during periods of global or regional crisis to help severely impacted Members stabilize the economy, sustain public expenditures, protect the most vulnerable and enable Members' swifter return to their longer-term development mandate. G20 Leaders issued a set of Principles in which they also called for effective coordination between the International Monetary Fund (IMF) and MDBs when providing financing to countries facing macroeconomic difficulties and when Policy-based Lending is envisaged. In line with the G20 calls and as part of the community of international financial institutions, AIIB responded to calls from Members and peer MDBs to support governments in times of crisis in line with AIIB's mandate by creating its COVID-19 specific Facility and shall continue extending support in future crises as part of the MDB multilateral system.

10. **AIIB's Role in the Multilateral System.** AIIB's central focus is on financing investments in crisis prevention and preparedness and in resilient infrastructure within the core sectors and thematic priorities of the CS. Nonetheless, the CS also foresees AIIB can also support Members in emergency and extraordinary situations. Recent experiences from the Facility have shown that in crises situations, AIIB would be called upon by Clients and MDB co-financiers to provide emergency and recovery support as a relevant and responsive member of the MDB community. Beyond the Facility, as emergencies and extraordinary situations will emerge from time to time in the future, it is important for the Bank to define its approach to rapid crisis response and ensure it has the capacities necessary to be part of a concerted international financial response to serve Members in times of crises. This means providing much needed financing through tailored financing instruments to help Clients weather crises and restore their economic and social stability through saving livelihoods, protecting the poor and the vulnerable, maintaining basic services, buffering economic activity, and preserving human capital investments. For AIIB, helping Clients recover quickly is also a means of getting back on track sooner with the Bank's core business i.e., investing in infrastructure projects.

11. **Limitations of Ad Hoc Crisis Response.** The experience from the Facility shows that AIIB, with oversight from the BOD, can mobilize time- and scope-defined emergency support on an ad-hoc basis when crisis arises. However, such an approach requires a bespoke response mechanism to be developed from scratch for each crisis, which necessarily delays urgent support. Given the unpredictability and speed with which future crises may arise or evolve, AIIB may not be able to respond quickly and readily to calls from Clients or other MDBs in the absence of an established protocol or general approach to crises response.

^{3/} G20 Eminent Persons Group, October 2018; G20 Principles, July 2021; Bali Leaders' Declaration Nov 2022; and G20 Capital Adequacy Framework Review, July 2022.

B. Overall Approach For Future Crises Response

B.1. Principles

12. AIIB's overall approach to future crisis responses shall consider the following key principles:

- a. **AIIB's Articles of Agreement and Mandate.** AIIB's financing for emergency response as described in this paper is fully aligned with its Articles of Agreement and mandate.
- b. **Corporate Strategy (CS) Priorities.** To the extent possible, given the nature of the crisis, AIIB's emergency response shall prioritize the use of all possible regular financing instruments, which typically serves regular infrastructure investments in alignment with CS goals and thematic priorities and at the same time will step up the Bank's efforts to strengthen Members' future crisis prevention, preparedness and response.
- c. **Client Focus:** The CS requires the Bank to support Client needs under ordinary as well as extraordinary situations. Given the various types and unpredictable nature of crises, AIIB's emergency response must be fast and adaptable to respond to evolving and urgent Client needs.
- d. **Rapid Response:** AIIB is a client-focused institution, and in a crisis time, clients need financiers to act fast. All crisis financings shall emphasize rapid response to Client needs with fast-tracked and simplified project preparation and approval processes, streamlined project documentation, short term implementation period with fast disbursements, and joint MDB assessment and cofinancing where appropriate.
- e. **Coordinated Action:** An internationally coordinated crisis response is generally established when an MDB, or a United Nations Agency or an internationally-recognized body initiates a discussion with another or more MDBs (including AIIB) on a response to crisis, in most cases with joint IMF assessment.^{4/} AIIB's emergency response should be provided as quickly as possible, be coordinated with other development partners and complement the partners' role and financing. Depending on AIIB's own comparative advantage in each case, AIIB can lead emergency project financing aligned with its CS goals and thematic priorities or co-finance PBCF with other MDBs within a number of limitations as described in Section C.
- f. **Measured And Time-Bound:** As called for in the CS, AIIB's use of PBCF in response to extraordinary situations must be measured and time-bound, taking into

^{4/} For example, for a health-related crisis, a state of emergency (or its equivalent) is declared by the government, the WHO or a similar body. Coordinated response to a major crisis also tends to be discussed in joint MDB working groups, to which AIIB is also a Member.

account the proper economic and risk assessments – including from peer IFIs – and the nature of the financing need in determining its scope, design and duration.

- g. **High Standards And Financial Sustainability.** All crisis financings shall be prepared in accordance with existing AIIB policies and adhere to the same high project quality and standards as those for regular AIIB financing including project assessment and due diligence, and for project preparation and implementation support, unless the specific derogations being allowed under the BOD Decisions in Section D apply. All crisis financings shall follow AIIB's established pricing policies and be deployed consistent with AIIB's commitment to financial sustainability and sound banking principles. The approval of any crisis financing shall be governed by AIIB's Risk Management Framework. All crisis financings shall protect the debt sustainability of the Member as well as the financial sustainability of the AIIB portfolio.

B.2. AIIB's Available Financing Toolkit

13. **Client Needs.** A diverse range of Client needs during crisis – from restoring damaged or disrupted infrastructure assets or services, providing public health and communications equipment or services, post-disaster environmental restoration and protection to onlending and working capital to sustain livelihoods and infrastructure-related expenses – are well covered under AIIB's CS thematic priority areas and sectoral/cross-sectoral strategies. AIIB's toolkit can provide a range of financing instruments to support the demand from Clients during time of crises.

14. **Available Financing Instruments.** AIIB offers a range of financing instruments that can meet Clients' diverse needs in times of crises. This regular financing toolkit can be activated during an emergency (see para 15) or potentially expedited for faster crisis response (see para 17). The introduction of PBCF through the Facility has provided an additional instrument for much-needed fast-disbursing countercyclical financing to support Members' economic resilience during a specific crisis situation. On June 15, 2023 AIIB's BOD approved the application of PBCF in future eligible crises as defined in paras. 20 and 21.

15. **Toolkit in Regular Financing.** As summarized below, AIIB has a range of regular financing instruments available to both SBF and NSBF clients, some of which are supported by special provisions within AIIB's Operational Policy for Financing (OPF) and, where applicable, by the provision of larger retroactive financing, to address emergency situations quickly as they arise.^{5/} These include, but are not necessarily limited to the following:

- a. **Immediate Emergency Response Support (IERS):** The IERS allows Members to have immediate access to a portion of the undisbursed balances of their approved AIIB project portfolio in the event of a crisis or emergency and thus shorten AIIB's response time, while encouraging Members to proactively prevent and prepare to respond to crises in a rapid and effective manner. The IERS could include, for example: (i) Restructuring-Cum-Reallocation: In Sri Lanka, the Bank

^{5/} The Bank's emergency response excludes humanitarian relief activities that would be better suited to specialized relief agencies.

reallocated undisbursed funds under two approved projects to a newly created Health Emergency Response component (e.g., Sri Lanka Project Changes for Emergency Health); and (ii) *Use of Contingent Emergency Response Component (CERC)*, whereby AIIB can deploy funding under CERC^{5/} if there is a provision for it in the approved projects;

- b. ***Additional Financing***: Additional financing may be considered for approved AIIB projects or as part of cofinancing of partner MDBs' projects or programs;
- c. ***Liquidity Financing*** to financial intermediaries (FIs) or infrastructure-related companies operating in AIIB's core sectors may be provided to enable them to finance urgent working capital needs for business continuity;
- d. ***Emergency Infrastructure Sector Support*** to finance eligible recurring or crisis-related expenditures (e.g., procurement of COVID-19 vaccines) in a particular sector within AIIB's infrastructure mandate;
- e. ***Regular Financing Instruments Supported By Special Policy Provisions Applicable To Emergency Response***: For localized emergencies caused by conflict-related or natural disasters or other emergency situations (e.g., flood, cyclone, earthquake and drought), at the request of Clients, AIIB can provide a standalone regular financing for emergency support by using, when applicable, the Special Circumstances Provision in the Bank's Environmental and Social Framework (ESF) and the Procurement Policy (PP). The *China: Henan Flood Emergency Rehabilitation and Recovery Project* is an example of such an emergency response operation. The Bank can provide such a new financing to its Members to support the construction, reconstruction, maintenance or upgrade of energy, transport, urban, digital, and social infrastructure to improve resilience, security, efficiency, and sustainability.

16. **AIIB's Value Addition in Strengthening Members' Infrastructure Resilience.** With its dedicated mandate, AIIB can play an important role in helping Members rehabilitate infrastructure after disasters as well as in improving the resilience of infrastructure against future disasters. In addition to the immediate emergency response support as described in para. 15, the Bank can also finance freestanding infrastructure-related reconstruction or disaster prevention and mitigation projects at any time. This is especially important in areas that are or will be prone to specific types of emergencies or recurring disasters including heightened risks or impacts on infrastructure and livelihoods. AIIB can use its regular financing instruments to support its Clients toward a resilient recovery through the prevention and preparation for future crises via a combination of: (i) ***ex-post*** emergency response, prevention and preparedness measures built in as components or features of emergency investment operations; and (ii) ***ex-ante*** risk reduction, preparedness and prevention measures in investment operations using principles from financing in the private sector and modelled

^{5/} AIIB's Operational Policy on Financing provides for the inclusion of a Contingent Emergency Response Component (CERC) (also known as "Zero Component"), i.e., a component of a Project designed to accommodate as yet unidentified activities that may be required to address a future emergency, such as a natural disaster or a pandemic.

around innovative financing instruments of peer MDBs. Consideration will be given to the climate change adaptation needs of every project, under the Bank's Paris Alignment commitment. AIIB will work with other MDBs to help Clients identify and finance ways to improve their physical, social, and financial resilience to future shocks or crises. AIIB will further build on the experience of the COVID-19 Crisis Recovery Facility as an implementing entity of the new Financial Intermediary Fund for Pandemic Preparedness and Response.

17. **Streamlining Processes for Efficient Crisis Response:** In general, the nature of crises situations compels AIIB to provide its support as quickly as possible. Learning from AIIB's experience (including under the Facility), several streamlining measures can continue to be considered and partnerships utilized to expedite project preparation and implementation in AIIB's overall crises response financing, notably:

- a. The Special Provisions within the Operational Policy for Financing (OPF) for regular projects to address emergency situations as they arise (see para 15 above);
- b. A simplified and expediate management approval process;
- c. Shorter distribution (one week) of project documents to BOD;
- d. Simplified and short project documentation with standard sections across projects on crisis impact, project objective and description, project assessment and results framework, and the use of a Memorandum of the President (MOP) for PBCF operations (with the cofinancing MDBs' Project Document attached to the MOP);
- e. The use of templates to facilitate the work of staff in drafting the environmental and social aspects of the project documents, MOPs, and Project Summary Information for both cofinanced and standalone Facility operations. These templates have since been mainstreamed for general application in regular investment project financing;
- f. The implementation of PBCF with other MDBs was also accelerated by applying the cofinancing MDBs' Policies on Financing, Environmental and Social Policy and Procurement Policy, and by partnering with and building on the MDBs' capacity for fast-tracked project appraisal and implementation support;
- g. AIIB and/or its Clients may also consider contracting the United Nations (UN) system bodies or other local partners (including civil society organizations and community groups) as implementing agencies or implementation support agencies. Such partners tend to have established local presence as well as strong in-country expertise, personnel, services, and equipment to help reach beneficiaries in crisis. AIIB and/or its Clients may also consider contracting fiduciary agents or third-party verification agencies to address fiduciary concerns around corruption or misuse of funds in crisis situations; and
- h. Finally, the learning and development of a cadre of staff Bank-wide who are familiar with emergency response operations and how to apply these various measures and develop effective and pragmatic approaches to address emergency situations such as the COVID-19 pandemic in a timely and appropriate manner.

18. **Policy-Based Cofinancing as an Essential Part of AIIB's Overall Approach to Crisis Response.** AIIB's experience in deploying the Facility has shown that PBCFs are both an essential part of the crisis response of governments and a necessary complement to AIIB regular financings in fulfilling diverse Client needs during a crisis, notably by providing flexible,

fast-disbursing and front-loaded countercyclical funds to help Member governments raise capital quickly in an emergency. As of April 30, 2023, PBCFs accounted for roughly 37% of all Facility projects (21 projects) but a high 52% (USD 7.36 billion) of total Facility financing. Among Facility projects, the quickest disbursing were PBCFs, with over 45% of PBCFs (USD 3.3 billion) disbursed within the first six months of the Facility's launch. As such, the availability of the PBCF instrument has been critical for injecting much-needed liquidity for timely sovereign emergency response efforts while AIIB serves other categories of Client needs in parallel through its regular financing. On June 15, 2023 AIIB's BOD approved the application of PBCF to future crises within the limitations as described in Section C so that AIIB can continue to support its Members in extraordinary situations, as foreseen in the Corporate Strategy, and as part of the MDB system.

C. Policy-Based Cofinancing as a Part of Future Emergency Response

19. **Activation.** During times of crisis, it is essential for AIIB to be able to respond quickly. In the event of an eligible crisis qualifying as an extraordinary situation for which Management intends to provide exceptional and time-bound PBCF as part of its crisis response support to Clients, Management shall prepare a paper on AIIB's Emergency Response to an Eligible Crisis (crisis-specific paper) for the BOD setting out the Bank's assessment of the situation, including the severity of the impact, a justification for determining the crisis qualifies as an extraordinary situation (according to the definitions in paras 20 and 21), the emerging Client demand, the international coordinated financial response underway and AIIB's plan to extend financing, including the likely size and duration of the PBCF support. Upon BOD approval of the eligibility of a crisis as an extraordinary situation, Management shall be able to activate PBCF to respond to that particular crisis according to the conditions and limitations outlined in the paper and in the BOD Decisions in Section D. If and when needed, Management shall seek Board approval to extend the use of the mechanism in response to a particular eligible crisis beyond the timescale set out in the crisis-specific paper presented to the BOD. Information on the expected cumulative size of PBCF shall be presented to support the BOD decision to extend the use of the facility.

20. **The Trigger.** An eligible crisis where AIIB's PBCF may be applied is an extraordinary situation affecting a single Member or multiple Members and having all of the following characteristics: (i) having severe economic impacts; (ii) evoking an international coordinated financial response to a broadly recognized shock; and (iii) leading to urgent requests to arise from AIIB Members for the Bank to deploy exceptional and timebound PBCF to support their urgent needs. For crises affecting only one Member, the following additional conditions will apply: (i) the crisis is of national significance; (ii) its impacts far exceed the Member's regular financing capacity; and (iii) a technical assessment on the severity and impacts of the crisis, the recovery needs, and the fiscal impact have been undertaken by the government and partner organizations and is being used to help coordinate and inform the international financial response. AIIB will assess the eligibility of a crisis in partnership with MDBs (including the IMF), utilizing their extensive and rigorous economic and analytical assessments to evaluate the impacts of a crisis. This would also allow AIIB to avoid duplication of efforts while making best use of the significant resources already deployed by partner MDBs.

21. **Eligible Crises.** Examples of eligible crises that qualify as extraordinary situations for which AIIB may extend PBCF may include but are not limited to: (i) **severe crises** such as large-scale natural or conflict-related disasters, public health emergencies and economic crises; and (ii) **slower-onset events** such as disease outbreaks and food insecurity where early response and resilience-building financing are needed to prevent prevailing conditions from escalating into major crises. The COVID-19 pandemic is an example of an eligible crisis affecting **multiple Members** whereas the 2022 Pakistan Flood is an example of an eligible crisis affecting a **single Member**.

22. **Prioritization of AIIB's Immediate Emergency Response to Future Crisis.** AIIB has and would continue to provide a range of financing to respond to Clients' diverse crisis response needs by: (i) **prioritizing regular financing instruments** for all Clients to the extent possible to support emergency response interventions closely aligned with the Bank's core mandate and help Clients stay on track with their green, resilient and inclusive recovery; (ii) **extending Policy Based Cofinancing** to eligible Members in coordinated response with peer MDBs to extraordinary situations beyond the scope of regular financing instruments; and (iii) making best use of the Bank's **existing capacity and expertise** to provide both regular and emergency financing operations in partnership with peer MDBs. For those Members not eligible for PBCF, AIIB would seek to deploy its full range of regular financing instruments as described in para. 15, including those designed with fast disbursing features, e.g., liquidity financing or emergency infrastructure sector support, and where applicable, provision of larger retroactive financing.

23. **Policy-Based Cofinancing in an Extraordinary Situation.** Once the BOD has approved the eligibility of the crisis as an extraordinary situation, AIIB may extend exceptional and timebound PBCF to any Member affected by the specific crisis with the African Development Bank, Asian Development Bank, Inter-American Development Bank or World Bank, which have established Policy-Based Financing frameworks. All Members shall be eligible to access exceptional and timebound PBCF, although non-regional Members shall be subject to the financing limits but not to the Eligibility Principles in the Strategy on Financing in Non-Regional Members.^{2/} Given the unpredictability of future crises, the indicative size and duration of PBCF (including its financial impact on AIIB's cumulative portfolio up to the point of the crisis) will be proposed on a per-crisis basis, as part of the crisis assessment presented to the BOD. All crisis-related PBCF will be subject to AIIB's principles of financial sustainability, high project standards and an IMF assessment confirming the adequacy of the Borrower's macroeconomic-framework, debt sustainability and fiscal arrangements. AIIB shall apply the

^{2/} Under AIIB's Strategy on Financing Operations in Non-Regional Members, AIIB may only finance investments in a non-regional Member in ordinary times if such investments have significant benefit to Asia and they fall under at least one of the following three Principles: a) supporting trade and connectivity with Asia; b) investments in global public goods, specifically renewables; and c) investments in Members with geographical proximity and close economic integration with Asia (e.g., Egypt). However, in crisis time, non-regional Members may be experiencing, or are likely to experience, a severe shock in economic activities and/or fiscal stress as a result of the crisis, which could threaten or could be threatening their pre-crisis benefits to Asia. Extending PBCF to non-regional Members would allow (i) these Members to sustain regular economic activities that benefit Asia; and (ii) AIIB to return to its commitment to add value in non-regional Member investment projects that benefit Asia and are aligned with one or more of the three Principles. Moreover, based on lessons from the COVID-19 Crisis Recovery Facility, it is unlikely that all or even most crises will meet at least one of these Principles; as such, it is proposed that PBCFs for eligible crisis purposes shall be exempt from these Principles.

leading MDB's relevant policies, for example WB's Policy on Development Policy Financing or ADB's Policy on Policy-Based Lending, in lieu of AIIB's Operational Policy on Financing (OPF), Environmental and Social Policy (ESP) and Procurement Policy (PP). AIIB does not intend to provide Policy-Based Financing as part of its regular instruments or on a standalone basis. PBCF projects shall not be eligible for the Special Fund Window, which may only be applied to eligible regular [non-PBCF] emergency response financing.^{8/}

24. **Accountability Framework.** All PBCF projects under this approach shall be subject to the Regulation on the Accountability Framework as it applies to co-financed projects. Where BOD approvals are required simultaneously for both the eligibility of a crisis for use of PBCF and a single or first PBCF operation (in response to that crisis), Management may bring such a case to the BOD in the same meeting. In such cases, a single unified document could be prepared consisting of an expanded Memorandum of the President that includes: (i) Management's determination of the crisis eligibility as described in para. 19; (ii) the information on the PBCF operation; and (iii) the lead cofinancier's Project Document. Although activation of the mechanism and approval of a single or first PBCF project could be combined into one paper, they would be two separate BOD decisions.

25. **Continuous Learning and Progress Reporting.** Given the high uncertainties and urgent client needs, adequate considerations to speed, agility, adaptive learning, flexibility, and mid-course adjustments would be critical to effective deployment of crisis financings. A transparent and fluid communication between Management and the BOD is key to enable such a timely action. Management shall regularly report to the BOD on the progress of future crisis-specific response and any mid-course adjustments as needed, as well as an assessment of the results of each regular or PBCF operation at its completion. Management shall submit a final review of AIIB's overall response to an eligible crisis where use of PBCF is triggered, upon the termination of the financing. Such a review after each crisis will include lessons learned (if any) for the mechanism as a whole. The BOD may invite the Complaints-Resolution, Evaluation and Integrity Unit (CIEU) to provide its views on such a review. Management shall also regularly report to the BOD on the progress of future crisis response(s) as part of its regular Business Plan and Budget Update. Such progress updates shall include experience and lessons learned from the implementation of AIIB's approach to eligible crises over time. Training would be provided to staff to enhance their knowledge of peer MDBs' policies that would be called upon in a co-financing arrangement, so that the relevant AIIB teams be equipped with skills to facilitate the fast deployment of PBCF.

26. **Optimizing Existing Capacity.** Given the complementarity of regular and emergency financings in AIIB's crisis response to date, the Bank has opted to organize existing staff for both types of operations with staff resources prioritizing AIIB's regular financing. Doing so not only optimizes the efficient allocation of resources at the Bank, but also enables staff to build capacity in delivering crisis response in collaboration with other MDBs. While it is expected that PBCF will be very resource efficient, for those staff involved it also provides the opportunity to share in peer MDBs' capacity, experience, local presence, policy dialogue and underpinning analytical work to help AIIB prepare high quality PBCF operations, develop further in-country knowledge, engagement and downstream opportunities in AIIB's core

^{8/} AIIB's Paper on the Decision to Establish a Special Fund Window for Less Developed Members.

sectors and leverage its financing alongside cofinancing MDBs to advance common development and reform agendas.

27. **Partnerships and Coordination.** Recognizing its limited expertise in managing complex and large-scale responses to extraordinary situations, the Bank has and will continue to closely coordinate with other MDBs. As with the COVID-19 Crisis Recovery Facility, AIIB's emergency response will be deployed as part of international coordinated efforts. Such a partnership and coordinated approach will start prior to BOD's consideration of the eligibility of the extraordinary situation. For example, to determine crises eligibility, and the size and duration of activation period, Management will consult peer MDBs, IMF and other international partners, and, where possible, participate in joint IFI assessments.

D. The Decisions

28. On June 13, 2023 the Board of Directors adopted the following decisions to extend PBCF as part of the Bank's broader approach to help Members respond to and recover from future eligible crises:

- (i) AIIB may apply its PBCF to eligible crisis, defined as an extraordinary situation affecting a single Member or multiple Members and having all of the following characteristics: (i) having severe economic impacts; (ii) evoking international coordinated financial response to a broadly recognized shock; and (iii) leading to urgent requests to arise from AIIB Members for the Bank to deploy exceptional and timebound financing to support their urgent needs. For crises affecting only one member, the following additional conditions will apply: (i) the crisis is of national significance; (ii) its impacts far exceed the Member's regular financing capacity; and (iii) a technical assessment on the severity and impacts of crisis, the recovery needs and the fiscal impact has been undertaken by the government and partners and is being used to help coordinate and inform the international financial response.
- (ii) The Board of Directors shall approve, by simple majority, the eligibility of a crisis as an extraordinary situation for the use of PBCF by the Bank, following a discussion of a paper submitted by Management. Following such an approval, Management shall be able to activate PBCF to respond to that particular crisis or emergency according to the conditions and limitations outlined in the paper. If and when needed, Management shall seek approval of the Board of Directors to extend the use of the mechanism in response to a particular eligible crisis beyond the timescale set out in the crisis-specific paper presented to the Board.
- (iii) For use of PBCF in an eligible crisis, the Board of Directors approves the use of the Policies of the African Development Bank, Asian Development Bank, Inter-American Development Bank or World Bank for such financings in lieu of AIIB's Operational Policy on Financing, Environmental and Social Policy and Procurement Policy. All Members shall be eligible to access exceptional and timebound PBCF, although non-Regional Members shall be subject to the

financing limits (but not to the Eligibility Principles) in the Strategy on Financing in Non-Regional Members.