



# **Extension of the COVID-19 Crisis Recovery Facility**

Feb. 24, 2022

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## Abbreviations

ADB	Asian Development Bank
AG	Administrative Guidance
AIB	Asian Infrastructure Investment Bank
APVAX	Asia Pacific Vaccine Access Facility
Board	AIB Board of Directors
COVID-19	Coronavirus Disease 2019
CPRO	COVID-19 Pandemic Response Option (ADB)
CS	Corporate Strategy
ESP	Environmental and Social Policy (AIB)
GDP	Gross Domestic Product
IMF	International Monetary Fund
MDB	Multilateral Development Bank
NSBF	Non-Sovereign Backed Financing
PBF	WB's Policy-Based Financing
PBL	ADB's Policy-Based Lending
PforR	WB's Program for Results
RBL	ADB's Results-Based Lending
SBF	Sovereign Backed Financing
SFW	Special Fund Window
SPRP	WB's Strategic Preparedness and Response Program
USD	United States Dollar
WB	World Bank
WBG	World Bank Group

## Summary

1. The COVID-19 pandemic is far from over. Given the continuous mutations of the virus and the uneven pace of vaccination across the globe, the path to containing the pandemic is uncertain. The response of the world community is evolving to increasingly manage COVID-19 as an endemic disease. While global growth has rebounded rapidly, a closer look reveals increasing divergence between developed and developing economies, as well as within these groups of economies. Whereas advanced economies have had more resources and better access to vaccines to weather the pandemic, many developing economies are still struggling to increase vaccination rates and roll out emergency measures to safeguard lives and livelihoods and may not be able to bring the pandemic under control until the end of 2022 (or later in 2023). Furthermore, the emergence of the highly transmissible and fast-spreading Omicron variant has been driving up case counts and hospitalizations in developed and developing economies alike, straining health care systems and setting off additional waves of travel restrictions and lockdowns everywhere. As a result, the global recovery, while strong overall, is very uneven and far from stable.
2. In this challenging environment, client needs are expected to remain large and varied according to country-specific circumstances, depending on the path of the pandemic and the state of economic recovery. Client demand could range from financing for crisis response and early-stage crisis recovery, to financing for pent-up investments and post-pandemic new normal investments. There will also likely be broad-based demand across economies for vaccine financing given its central role in a sustained economic recovery. As a result, Asian Infrastructure Investment Bank (AIIB) Members have continued to seek support to respond to the health crisis, protect vulnerable populations, and implement policies and actions to revive their economies in a more resilient and inclusive manner.
3. AIIB's Board of Directors (Board) has agreed to continue offering flexible emergency support to Members during this extraordinary time by extending the Bank's financing support under the COVID-19 Crisis Recovery Facility (the Facility) until end-2023. AIIB's business plan for 2022 remains unchanged: AIIB aims to support economic recovery through regular financing of infrastructure projects aligned with the Bank's Corporate Strategy, and the Bank needs to be prepared with appropriate firepower to support immediate crisis recovery needs when and where they emerge. The Facility extension is necessary to support the latter.
4. The extended Facility will have a narrower focus on: (i) vaccine procurement, distribution and deployment of both vaccines and therapeutics, cofinanced with the World Bank or Asian Development Bank (ADB); (ii) Policy-Based Financing (PBF) for enhanced pandemic response, preparedness and recovery, cofinanced with the World Bank or ADB; and (iii) financing of essential COVID-19 emergency healthcare or urgent expenditure needs which could be standalone financing by AIIB or as co-financing led by peer MDBs
5. To continue the support for AIIB clients, those projects which were already in the Rolling Investment Pipeline of the current Facility prior to Feb. 24, 2022 will continue to proceed with next steps.

6. The Decisions to Support the AIIB COVID-19 Crisis Recovery Facility, adopted April 16, 2020, remain in force as relevant (described in paragraph 30 of the Paper), to support the operation of the extended Facility financings within the revised scope.<sup>1</sup>

7. With the approval of the Facility extension, the total Facility financial envelope has been increased up to USD20 billion (equivalent to an average of USD5 billion per year over the full life of the Facility), which would allow AIIB to signal to both borrowers and cofinanciers its commitment and capacity to support Members in the face of persistent challenges.

8. In response to Board feedback, Management will follow the standard submissions timeline of fourteen days for Facility projects. Management will undertake a second interim review of the extended Facility by end-2022 and a final review of the Facility after the Facility terminates.

## A. Economic Context

9. **Diverging Recoveries.** At the turn of 2022, global economic recovery continues. Uncertainty remains high and recovery speeds differ widely across countries. New variants, uneven vaccine rollouts, and weaker policy support in emerging and developing economies cloud the global outlook. The pandemic seems increasingly likely to be more drawn-out than originally expected. Add to this the prospects for tighter monetary conditions, particularly in advanced economies, with potential for destabilizing spillovers to indebted emerging and developing economies.

10. Global growth in 2021 is estimated at around 6 percent and projected to continue at around 5 percent in 2022—the highest rates in several decades.<sup>2</sup> Household savings in advanced economies, supported by stimulus money, are sustaining consumer demand. Business confidence has recovered. International trade has reached full capacity, and rapid demand growth has even caused substantial disruptions and dislocations in global value chains.

11. However, not all countries are benefitting equally from the global recovery. In some countries—mostly advanced economies—economic activity has almost normalized, while in others virus outbreaks and economic hardships persist. This divergence is due to two factors: access to vaccines and the ability to deploy them (which vary widely between countries); and the extent of government support (dependent on fiscal space, which is dwindling for many emerging and developing economies).

12. While emerging markets and developing economies are expected to grow by around 5 percent on average in 2022—comparable to the global average—these projected rates are insufficient to bring GDP growth back to pre-pandemic trends even in the medium term.<sup>3</sup> This average growth rate also disguises a large and likely increasing divergence within the emerging and developing world, with the less-developed economies facing greater vulnerabilities.

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<sup>1</sup> AIIB Paper on the Decisions to Support the AIIB COVID-19 Crisis Recovery Facility, April 16, 2020.

<sup>2</sup> International Monetary Fund (IMF), [World Economic Outlook](#), October 2021.

<sup>3</sup> Ibid.

13. **Setbacks to Development Gains.** According to the World Bank (WB), an estimated 100 million more people have fallen into extreme poverty, about 80 percent of whom are in middle-income countries, suggesting that they have lost their economic gains. Poorer households have lost incomes, sold productive assets, suffered food insecurity, and missed schooling for children—especially girls. Women have been particularly susceptible to unemployment, especially given their higher participation in the informal sector. This underscores the importance of promoting inclusion in recovery pathways.

14. **Emergence of the Omicron Variant.** The fast-spreading Omicron variant presents a significant challenge. While the hope had been for a less severe economic impact than in previous outbreaks, thanks to improving adaptation, the higher transmissibility of the new variant has led to higher numbers of infections which, in turn, is causing greater disruptions. This impact is likely to be stronger in countries with lower public health capacity, which will require more mobility restrictions. The International Monetary Fund (IMF) has already indicated that it would likely downgrade its 2022 growth projections following the emergence of the Omicron variant.<sup>4</sup>

15. **Inflation Impacts.** Furthermore, despite encouraging headline numbers, the risks of a lower-growth, high-inflation outcome are now greater. Accelerating inflation across the globe is adding uncertainty, reaching multi-decade highs in some places, with consumer prices growing at 6 percent year-on-year in the United States and Germany. Some emerging economies report even higher numbers. Inflation has been driven by demand-supply mismatches related to the release of pent-up demand for goods, rising energy and food prices, unrelenting disruptions in container shipping and currency depreciations. Even if price pressures may be somewhat lower in Asia due to weaker demand, the prospect of high inflation over a longer period has already prompted major central banks in advanced economies to provide stronger guidance on potential rate increase sooner than previously anticipated. Several emerging economy central banks have already anticipated inflation pressures by raising interest rates.

16. **Implications for AIIB's Business.** The central scenario underpinning AIIB's business plan for 2022 remains that of economies muddling through, with an uneven and fragile recovery across emerging and developing economies. It is expected that there will be continuing intermittent outbreaks of COVID-19 infections, generally manageable inflation pressures, slightly tighter but still accommodating global monetary conditions and enduring divergence in recovery outcomes across countries despite gradually improving vaccine access. At the same time, the Omicron variant<sup>5</sup> and the inflation surprise are stern reminders of very real downside risks which, if realized, would have greater impact on emerging and developing economies, the main clients of AIIB. Health systems could be overwhelmed by Omicron or subsequent variants. Insufficient policy responses due to fiscal constraints could also lead to higher economic damage. Emerging and developing economies with lower public

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<sup>4</sup> Bloomberg. 2021. "IMF Chief sees downgrades to growth forecasts amid Omicron." Dec 3. Informal consultations with IMF staff further underscore the lowering of growth prospects.

<sup>5</sup> While some scientists are hopeful that Omicron may signal the end phase of the pandemic, it is far from certain that more virulent strains of the virus will not emerge.

health sector capacities, lower fiscal space, weaker sovereign credit ratings and dependency on contact-intensive services (such as tourism) will be particularly vulnerable.

17. Global monetary policy tightening could have a negative impact on some AIIB Members at a time when their economies are still seeking support. Higher global interest rates would potentially lead to higher risk premia, heightened risks of abrupt capital outflows, or debt sustainability concerns. Currency depreciation and growing nonperforming loans would negatively affect balance sheets and stall growth. Overall, more pessimistic outcomes, wider divergences (including within-group) and greater uncertainty means that some AIIB Members are likely to continue to need emergency assistance of varying natures and magnitude for a longer period. Recognizing the diversity of client needs, AIIB will remain adaptive, flexible, and prepared to meet the diverse and diverging needs of its clients along their respective paths to recovery.

## **B. Progress on Vaccination Across AIIB Members**

18. **Vaccine Divide.** The single most important global risk associated with COVID-19 is the inequitable access, distribution, and deployment of vaccines to control the pandemic. Despite sharp increases in vaccine production in 2021 (from around 100 million doses in January 2021 to 12.3 billion in December 2021), access to vaccines remains highly unequal. These 12 billion doses were not immediately available to lower-income countries. The divergence in economic prospects is a consequence of wide disparities in access to vaccines, vaccination rates (which the IMF calls “the great vaccine divide”) and policy support. Countries that have vaccinated their population speedily and whose economies have been bolstered by strong fiscal support are growing faster and have seen their growth projections upgraded, whereas those where vaccination is lagging have had their growth projections downgraded.<sup>6</sup> Vaccination is thus the first critical step to economic recovery. Timely vaccine financing helps Members to contain and/or prepare to contain virus resurgences, reduce further contagion and adverse spillovers globally, support recovery and reopen the economy.

19. **Progress in Vaccination.** According to vaccination data as of Jan. 3, 2022, 76 percent of the population eligible to be vaccinated in high-income countries have received at least one shot, compared with 8 percent in low-income countries.<sup>7</sup> The share of population fully vaccinated is 73 percent for high income countries, 43 percent for upper middle-income countries (excluding China with 84 percent), 19 percent for lower middle-income countries (excluding India with 44 percent), and 4 percent for low-income countries. Among IDA-only AIIB Members, vaccination rates have, on average, been higher in regional Members compared to nonregional Members, but they vary significantly between individual Members in Southeast Asia, Central and West Asia. For nonregional IDA-only Members, vaccination rates remain extremely low, with Rwanda leading by a long stretch at 57 percent of its population, 41 percent of which have completed a full vaccination regime of two doses.

20. **Readiness of Health Systems.** As global vaccine supplies increase (with production expected to double to 24.7 billion doses by the end of 2022), lower and lower-middle income

<sup>6</sup> World Bank, [The global economy: on track for strong but uneven growth as COVID-19 still weighs](#), June 18, 2021.

<sup>7</sup> Our World in Data, [Share of people vaccinated against COVID-19 as of Jan 3, 2022](#). (Note: The charts in our PPT also source data from Our World in Data.)

countries should have greater access to vaccines. These countries will require more support for the procurement of vaccines and in overcoming huge challenges in scaling up in-country vaccine delivery. The readiness of their health systems will become the most important determinant of increasing vaccine coverage. Therefore, AIIB support should address those gaps in readiness by strengthening health infrastructure, including systems and resources to ensure adequate deployment of vaccines, treatment of both COVID-19 and other chronically ill patients. AIIB should work alongside other multilateral development banks (MDBs) and development partners well established in this space.

### C. Global Policy Responses

21. **Multilateral Cooperation.** Containing the pandemic in the emergence of new and highly transmissible variants requires continuous coordinated global action. Multilateral cooperation will play a vital role in narrowing the divergence between the haves and have-nots, while strengthening global economic recovery by providing support for: (i) large-scale coordinated vaccine roll-out;<sup>8</sup> (ii) crisis prevention, preparedness, and response to the ongoing and future pandemics; (iii) broad-based recovery of financially constrained and severely impacted economies; and (iv) maintaining collective accountability of progress against targets. Multilateral actions to support COVID-19 recovery need to be reinforced by national-level policies aimed at saving lives, protecting livelihoods and vulnerable populations, as well as catalyzing a green, resilient, and inclusive recovery.

22. **World Bank's COVID-19 Response.** Since the outbreak of the pandemic, the World Bank Group (WBG) has committed more than USD157 billion to help developing countries respond to COVID-19, bolster public health interventions, and keep the private sector in business.<sup>9</sup> In April 2020, the WB rolled out a USD1.9 billion COVID-19 Strategic Preparedness and Response Program (SPRP). This was followed by another USD12 billion in October 2020 (later increased to USD20 billion in June 2021) to help developing countries acquire and distribute COVID-19 vaccines, tests, and treatments until end-2022.<sup>10</sup> As of Jan. 24, 2022, the WB has approved operations supporting vaccine rollout in 67 countries amounting to USD7.5 billion.<sup>11</sup> The WB also provides financing for post-COVID economic recovery as part of its regular financing instruments, including Policy-Based Financings (PBFs).

23. **Asian Development Bank's COVID-19 Response.** Since March 2020, the Asian Development Bank (ADB) has committed nearly USD20 billion in both regular and concessional resources to support its developing member countries address the health and economic consequences of the pandemic, of which USD13 billion is specifically targeted at countercyclical expenditure financing through its COVID-19 Pandemic Response Option (CPRO) program and the remainder to support economic recovery using regular instruments including Policy-Based Lending (PBL). Additionally, a USD9 billion Asia Pacific Vaccine

<sup>8</sup> IMF, [A Proposal to End the COVID-19 Pandemic](#), May 19, 2021, jointly endorsed by the World Health Organization (WHO), World Trade Organization (WTO) and the WB, aims to (1) vaccinate at least 40 percent of the population in all countries by the end of 2021 and at least 60 percent by the first half of 2022, (2) track and ensure against downside risks, and (3) ensure widespread testing and tracing, maintain adequate stocks of therapeutics, and enforce public health measures in places where vaccine coverage is low. The cost of this proposal is USD50 billion.

<sup>9</sup> World Bank, [WBG Operational Response to COVID-19](#), 2021

<sup>10</sup> Ibid.

<sup>11</sup> World Bank, [World Bank Support for Country Access to COVID-19 Vaccines](#), Jan. 2022.



Access Facility (APVAX) has been established for three years from December 2020 until end-2023 to help its Developing Member Countries access vaccines. APVAX may be extended for up to 24 months subject to the outcome of a review and agreement by ADB's Board of Directors.<sup>12</sup>

#### D. AIIB's COVID-19 Crisis Recovery Facility

24. **The Facility.** The COVID-19 Crisis Recovery Facility (the Facility) launched by AIIB in April 2020 has been effective in assisting Members (both sovereign and non-sovereign clients) address diverse emergency healthcare and economic needs. Some Members have utilized Facility support for health-crisis response, including vaccines and other treatments to combat high rates of infection and/or high risks of virus resurgence. Others have accessed the Facility to cover additional fiscal expenditures aimed at protecting or restoring livelihoods impacted by COVID-19. Several Members have also mobilized the Facility to boost post-pandemic recovery through investments in resilient institutions, private sector-led growth reforms, and inclusive and sustainable economic recovery programs.

25. **Key Features.** AIIB's Facility has thus been designed to be flexible and with key features to support the emergency nature of client needs, in line with other MDBs. Specifically, the Facility has exceptionally availed AIIB Members with AIIB cofinancing of the WB's Policy-Based Financings (PBFs) and Program for Results (PforR) and ADB's Policy-Based Lending (PBL) and Results-Based Lending (RBL) instruments, which are not part of AIIB's regular financing instruments.<sup>13</sup> AIIB's cofinancing with ADB through CPRO has proven to be especially effective in providing countercyclical financing at precisely the early critical stage of the pandemic when Members needed immediate support. Of the 15 PBFs cofinanced up to end-2021, 8 projects amounting to USD3.87 billion were undertaken with ADB through CPRO, accounting for more than 71 percent of the total PBF financing volume.<sup>14</sup> Of these CPRO projects, 6 were approved within the first four months of the Facility. The remaining 7 PBF projects were cofinanced with the WB and ADB under other programs. Overall, the cofinanced PBFs have delivered highly efficient financing support to Members in need, with 12 of 15 PBFs fully disbursed.

26. Vaccine financing and liquidity support to small and medium-sized enterprises (SMEs) have also been provided to AIIB Members for the first time through the Facility. Management has also streamlined internal rules to allow fast-tracking of Facility projects and specified a large Facility financial envelope of USD13 billion to signal AIIB's intent to support its clients.

27. **Interim Review of the Facility in 2020.** An internal interim review presented to the Board of Directors in December 2020 yielded a positive assessment of the Facility. Facility borrowers appreciated AIIB's flexibility to provide emergency financing, beyond its usual operations, to address client needs under extraordinary circumstances. The design of the

<sup>12</sup> Asian Development Bank, [ADB's Comprehensive Response to the COVID-19 Pandemic](#), April 2020.

<sup>13</sup> For the remainder of this paper, when reference is made to Policy-Based Financings (PBFs), it refers to both the WB's PBF and ADB's PBL; similarly, when reference is made to PforR, it refers to both the WB's PforR and ADB's RBL.

<sup>14</sup> Between April and July 2020, 6 PBF projects amounting to USD3.75 billion were cofinanced with ADB through CPRO, accounting for nearly 70 percent of the total volume of the 15 PBFs (USD5.43 billion) as of end-2021.

Facility was deemed to have met client demand in specific areas, notably in: (i) public health financing to purchase medical equipment, strengthen virus testing and monitoring, and improve the communications and preparedness of national health systems; (ii) liquidity financing to alleviate liquidity constraints and provide working capital support for a range of affected companies operating in infrastructure and other productive sectors essential for sustaining the economy; (iii) PBFs that provide fast-disbursing budgetary support for governments' social and economic response and recovery measures.

28. **Current Facility Portfolio and Pipeline.** As of Dec. 31, 2021, the full amount of USD13 billion in the Facility has already been committed, approved, or programmed. Of this USD13 billion, USD11.1 billion has been approved for 45 projects including: USD2.9 billion (26 percent) for the public health sector, of which USD1.2 billion are for vaccine financing and USD1.7 billion are for non-vaccine financing; USD2.3 billion (21 percent) for the finance/liquidity sector; and USD5.9 billion (53 percent) for the economic resilience/PBFs. 93 percent of the approved financings (USD10.3 billion) are for sovereign-backed financing and 7 percent (USD0.8 billion) are for non-sovereign-backed financing.

29. **Special Fund Window under the Facility.** On May 7, 2020, the Board approved the carve out of USD30 million from AIIB's Project Preparation Special Fund (PPSF) to a Special Fund Window (SFW) under the Facility.<sup>15</sup> As of Dec. 31, 2021, USD29.74 million of the USD30 million SFW has been allocated to four Facility projects amounting to an AIIB financing of USD217.3 million in 4 Members: Bangladesh, Cambodia, Kyrgyz Republic, and Maldives. On May 20, 2021, the Board approved another carve out of up to USD25 million from PPSF to a SFW for vaccine financing under the Facility.<sup>16</sup> As of Dec. 31, 2021, there are three vaccine financing projects in the pipeline eligible for USD5 million each from the SFW for vaccine financing under the Facility.<sup>17</sup>

#### **E. AIIB's Value Addition and Lessons Learned from the Facility.**

30. The current Facility has allowed AIIB to respond rapidly and substantially to Members' urgent needs during a crisis, as part of a coordinated international response, as well as strengthened AIIB staff's capacity to serve a more diverse range of client financing requests.

31. **Lessons Learned from PBF Cofinancing.** In 2021, many countries' fiscal objectives were to accommodate higher social spending to support the poor and vulnerable, including through job retention schemes and liquidity injections into key sectors. By cofinancing with the WB and ADB to provide PBFs, AIIB has been able to support government efforts to preserve macroeconomic stability and help cushion the negative effects of the pandemic on growth by playing a countercyclical role. In a short period of time, AIIB staff were able to learn how PBFs work and deepen their understanding of country-specific matters, including the macroeconomic situation and institutional structures of AIIB Members. In some PBF Facility financings, AIIB staff helped follow up with governments to track progress towards achieving the broader policy objectives underpinning PBFs. AIIB staff were able to learn from the policy reform dialogues, nurture relationships with clients and MDB counterparts, leverage the

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<sup>15</sup> Special Fund Window Under the COVID 19 Crisis Recovery Facility

<sup>16</sup> Replenishment of the Special Fund Window under the COVID-19 Crisis Recovery Facility

<sup>17</sup> Replenishment of the Special Fund Window under the COVID-19 Crisis Recovery Facility.

experienced local presence and underpinning analytical work of peer MDBs, and potentially create spill-over investment opportunities aligned with AIIB's Corporate Strategy and Thematic Priorities because of the reform actions advanced under the PBF.

32. **Strengthening Client Engagement.** Working in partnership with other MDBs has helped AIIB strengthen communication channels with local government and nongovernment stakeholders, which has the additional value of improving AIIB's client service and business development going forward. Through Facility financings, AIIB has gained valuable experience in conducting Member engagements by participating in joint reviews and other government meetings in the context of monitoring program implementation. Closer relationships with Member governments have generated subsequent demand for project financing from AIIB.

33. **Building AIIB Capacity.** The Facility has also pushed AIIB's boundaries to develop new expertise, build internal knowledge, tools, and procedures to better serve public and private clients across the income spectrum in health and social infrastructure and liquidity financing. Going forward, AIIB will be able to continue exploring and mainstreaming such health and social infrastructure projects into its regular business.

34. **Global Contribution.** Participation in global COVID-19 recovery efforts allows AIIB to have a seat around the table with governments and development partners to have a coordinated multilateral approach to proactively support Members in overcoming their most pressing pandemic challenges; securing financing for vaccines; preventing and preparing for pandemics; and embarking on a greener, more resilient, and more inclusive path to recovery.

## F. Extension of the Facility

35. **Decision.** Given these extraordinary times, the diverging recovery paths, the persistently higher-than-usual uncertainties from new variants over possibly an extended period of time and the specific circumstances of countries that are severely affected by the pandemic, the Board has approved an extension of the Facility until December 31, 2023.

36. **Scope.** After extension, projects will only be added to the pipeline under the Facility with a narrower focus on: (i) vaccine procurement, distribution and deployment of both vaccines and therapeutics, cofinanced with the World Bank or ADB; (ii) PBFs for enhanced pandemic response, preparedness, and recovery, cofinanced with the World Bank or ADB; and (iii) financing of essential COVID-19 related emergency healthcare or urgent expenditure needs, which AIIB could finance either as standalone or join co-financing led by peer MDBs. Specifically:

- a. Vaccine financing could be in the form of Investment Project Finance, or in the form of WB's Program for Results (PforR) or ADB's Results Based Lending (RBL).
- b. PBF could be extended to Members facing COVID-19 induced hardships. It is expected that countries seeking AIIB's PBF could be in the following circumstances, which are either persisting or have worsened because of the impact of protracted pandemic and weak recovery: (i) experiencing weak

recovery amid recurring outbreaks; (ii) having high dependency on certain sectors, including exporting ones, that are likely to take a long time to recover from COVID-19-related impacts (e.g. tourism and transport); (iii) requiring financing support to bolster health care systems, vaccine access or distribution; (iv) facing critical social or capital spending that are curtailed by constrained fiscal space; (v) stalled reform agenda due to pandemic prioritization; or (vi) facing substantially higher spreads or reduced access to markets despite generally sound economic fundamentals, sustainable debt and/or prudent policies.

- c. Financing of essential COVID-19 emergency health care or urgent expenditure needs would continue. Those would include, for example, personal protective equipment, oxygen concentrators, test kits, tracking systems, and any other medical healthcare items and resources required by public health sector entities for the treatment of COVID-19 and other chronically ill patients. Urgent expenditure needs would cover pandemic-induced needs of both NSBF and SBF clients, which will not be eligible for PBF financing and where disbursement could be linked to eligible budget expenditures. Such projects are beyond the scope of regular infrastructure financing, may require fast disbursement and can be processed either as standalone AIIB financing or as AIIB co-financing with peer MDBs.

37. The Decisions to Support the AIIB COVID-19 Crisis Recovery Facility, adopted April 16, 2020, remain in force as relevant to support the continued operation of the extended Facility financings. In particular, paragraphs ii-v of the above Decisions will apply as follows:

- a. The Bank applies the World Bank's (WB) Policy on PforR Financing or the Asian Development Bank's (ADB) Policy on RBL in lieu of the Bank's policies, including the Environmental and Social Policy (which the 2021 ESP already allows) and Procurement Policy (PP) for those projects proposed for cofinancing with the WB that are governed by the WB's Policy on PforR Financing or with ADB that are governed by ADB's Policy on RBL, respectively.
- b. The Bank shall provide policy-based financing only in the form of cofinancing led by the WB or the ADB, where the Bank applies the WB's Policy on Development Policy Financing or ADB's Policy on Policy-based Lending in lieu of the Bank's operational policies, including the Bank's Operational Policy on Financing (OPF), ESP and PP.
- c. Notwithstanding the limitations on the scope for the Bank's non-regional investment specified in the Strategy on Financing Operations in Non-Regional Members, nonregional members of the Bank are eligible to benefit from financing under the Facility (see paragraph 11.4 of the original Paper), subject to the ceiling for non-regional investment stipulated in the Strategy.
- d. All projects under the Facility will be subject to approval by the Board of Directors, unless delegated under the terms of the Regulation on the Accountability Framework.

38. **Size of the Facility.** Management has increased the Facility financial envelope to USD20 billion (equivalent to an average of USD5 billion per year over the extended period of

the Facility), which allows AIIB to signal to both borrowers and cofinanciers its commitment and capacity to support Members in the face of persistent challenges.

39. **Application of the SFW for vaccine financing.** Over the Facility extension period, the SFW for vaccine financing as approved by the Board in May 2021 will continue to apply to vaccine financing but not to PBF, as per the Board paper on the Replenishment of the Special Fund Window under the COVID-19 Crisis Recovery Facility.<sup>18</sup>

40. **Parallel Deployment of Regular and Facility Financing.** AIIB will deploy its regular financings alongside its Facility financings—the composition and scale of which will depend on country-specific circumstances, including the stage of the pandemic in the countries, the fiscal gap, and the extent of spillovers from global uncertainties. The narrowing of the scope of the Facility reflects the orientation set out in AIIB’s business plan for 2022, which calls for AIIB to shift back to its regular lending program and to support its Members’ recovery through regular financing in line with AIIB’s Corporate Strategy and Thematic Priorities. Many projects financed under the current Facility could likely be financed ordinarily by AIIB’s regular financing in future. Examples would be demands related to health infrastructure and systems strengthening; general pandemic prevention, preparedness, and response; and general vaccine manufacturing, logistics, and waste management. Liquidity financing for infrastructure-related companies, including small and medium-sized enterprises (SMEs) will also be considered under regular financing.

41. **Financial Sustainability.** AIIB is committed to its financial sustainability and sound banking principles. Based on a scenario analysis of the potential full utilization of the Facility financing volume with varying compositions of regular and Facility financing, AIIB is projected to remain financially sustainable. As more information on the actual pipeline under the Facility extension becomes available, Management will continue to monitor and assess its potential implications on AIIB’s financial position including funding program and liquidity portfolio. The approval of any new lending under the Facility extension will be subject to the limits under the Risk Appetite Statement, such as the target average credit of the portfolio, concentration against the largest borrowers and capital adequacy inclusive of planned lending.

42. **Appraisal of Facility Projects.** Each Facility operation will continue to go through AIIB’s regular investment appraisal process, including a standard due diligence including credit risk assessment, fiscal sustainability, and following the standard submissions timeline of 14 days to the Board. For PBF cofinanced with WB or ADB, AIIB would continue to require an IMF Assessment Letter or equivalent to ensure fiscal sustainability.

43. **Potential Demand for Extended Facility Financing.** Based on interest received from Members as well as cofinanciers, demand for AIIB’s extended Facility financing is expected to be high. AIIB is coordinating closely with peer MDBs to understand the progressions of their COVID-19 response facilities and to explore further cofinancing opportunities for both vaccine and policy-based financings. For the time being, AIIB has not developed a specific pipeline prior to the Board’s decision to extend the duration of the Facility so as to avoid raising expectations from clients prematurely. AIIB will be able to shape the pipeline for an extended Facility once AIIB signals its intention to provide additional support through an extension of

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<sup>18</sup> Replenishment of the Special Fund Window under the COVID-19 Crisis Recovery Facility.

the duration and size of the Facility. Management will continue to provide timely information on the demand and projected financing for the Facility, including via sharing Facility pipeline information with the Board on a quarterly basis together with the Quarterly Indicative Pipeline.

44. **Review of the Facility.** Management will undertake a second interim review of the extended Facility by end-2022 and a final review for the Facility after the Facility terminates.