



IDA17 Mid-Term Review

UPDATE ON IDA'S CRISIS RESPONSE WINDOW

IDA Resource Mobilization Department (DFiRM)
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Table of Contents

EXECUTIVE SUMMARY	i
I. INTRODUCTION.....	1
II. UTILIZATION OF CRW RESOURCES IN IDA17	1
III. EXPANDING THE ELIGIBILITY CRITERIA FOR ACCESSING CRW	5
IV. CONCLUSIONS AND ISSUES FOR DECISION.....	8
Annex	
Annex 1: Operation of the Crisis Response Window	9
Box	
Box 1: CRW Support during IDA17.....	3

ACRONYMS AND ABBREVIATIONS

CPCRI	Caribbean and Pacific Catastrophic Risk Insurance
CRW	Crisis Response Window
DaLA	Damage and Loss Assessment
EVD	Ebola Virus Disease
GDP	Gross Domestic Product
IBRD	International bank for Reconstruction and Development
IDA	International Development Association
IHR	International Health Regulations
IMF	International Monetary Fund
OCHA	Office for the Coordination of Humanitarian Affairs
PBA	Performance-Based Allocation
PCRAFI	The Pacific Catastrophe Risk Assessment and Financing Initiative
PDNA	Post Disaster Needs Assessment
PEF	Pandemic Emergency Financing Facility
PHEIC	Public Health Emergency of International Concern
SDR	Special Drawing Rights
WBG	World Bank Group
WEO	World Economic Outlook
WHO	World Health Organization
UN	United Nations

EXECUTIVE SUMMARY

- i. **Crisis Response Window (CRW) has significantly strengthened IDA's ability to respond to natural disasters.** Since IDA15, when it was initially piloted, CRW has become the key instrument in organizing IDA's crisis response. Noting its successful implementation in IDA16, Participants at the IDA17 replenishment meetings agreed for its continuation and asked Management for an update on the utilization of CRW resources at the IDA17 Mid-Term Review. This paper responds to that request and reports on the utilization of resources thus far in IDA17. It also highlights the need to allocate additional funds to CRW. Furthermore, in light of the experience with the Ebola Virus Disease (EVD) in West Africa, it proposes to expand CRW eligibility criteria to include public health emergencies and epidemics.
- ii. **The demand on the CRW resources during IDA17 has been strong and the initial allocation of SDR 0.6 billion (about US\$900 million) was almost fully committed in the very first year.** In FY15, IDA provided support from the CRW to eight disaster hit countries, committing about SDR592 million. This included CRW support for fighting the Ebola epidemic and reconstruction efforts, following the earthquake, in Nepal. Remaining resources in CRW amount only to about SDR2 million which could affect IDA's ability to participate in global efforts to combat severe crises in IDA countries over the remainder of this replenishment cycle.
- iii. **It is essential to replenish the CRW to retain IDA's flexibility to respond to emergencies in a timely, transparent and predictable manner.** To ensure that CRW maintains the ability to respond to crises, the IDA17 replenishment agreement stipulates that in the event of exceptional circumstances, the CRW resources, agreed initially, could be exceeded subject to approval by IDA's Board of Executive Directors. Thus, a reallocation to CRW can be made from FY17 IDA country allocations. However, the US dollar value of the country allocations has been negatively affected, since the start of IDA17, due to depreciation of SDR vis-à-vis the US dollar. A reallocation from country allocations would have an additional negative impact on country programs. An alternative is to make a contingent allocation of resources to CRW from the proposed Scale-up Facility¹ in an amount similar to the initial allocation in IDA17. Accordingly, the Management proposes to use a contingent amount of up to US\$900 million from the scale-up facility to replenish the CRW. Any unused portion of the CRW resources would be made available to IDA countries on non-concessional terms (similar to those from the International Bank for Reconstruction and Development – IBRD terms).
- iv. **At the IDA17 replenishment meetings, Participants supported continuation of the implementation arrangements governing access to CRW resources as set out in the IDA16 replenishment.** However, IDA's exceptional use of CRW for the Ebola epidemic highlighted the need for revisiting eligibility criteria and implementation arrangements for accessing CRW. Currently, CRW support can be provided in the case of economic crises and natural disasters. The eligibility criteria and implementation arrangements, however, do not expressly include crises caused by public health emergencies or epidemics. To ensure that IDA countries can access CRW resources in case of rare and severe public health emergencies and epidemics, Management believes the eligibility criteria for CRW should be expanded to cover public health emergencies and epidemics in IDA countries that are of potential international importance. In terms of the

¹ The proposed scale-up facility would make available – on a one-off basis – up to US\$5.0 billion to IDA countries. See “Enhancing IDA's Financial Support in IDA17, Proposal for a Scale-up Facility,” IDA17 Mid-Term Review.

specific conditions that would need to be in place in order to consider CRW access, Management believes the following would allow for adequate targeting of scarce CRW resources:

- The IDA country affected by a public health emergency or epidemic would have declared a national public health emergency; and
- The World Health Organization (WHO) would have declared that the outbreak is of potential international importance, under WHO's Global Alert and Response system in accordance with the International Health Regulations (IHR), 2005.

As is the practice for other natural disasters, CRW would be available for public health emergencies that are exceptionally severe. The procedures for responding to such events will follow the authority already provided under IDA replenishments to allocate resources on an exceptional basis. The implementation arrangements are set out in Annex 1.

vi. **Staff welcome the views of Deputies on the following:**

- Contingent allocation of US\$900 million from the proposed Scale-up facility to replenish the CRW to maintain IDA's ability to provide additional financing to countries affected by severe economic crises, natural disasters, and public health emergencies. Any unused portion of the CRW resources – would be made available to IDA countries on non-concessional terms (similar to those from the International Bank for Reconstruction and Development – IBRD terms).
- Expansion of the eligibility criteria for accessing the CRW to include public health emergencies and epidemics when a country affected by a public health emergency or epidemic declares a national public health emergency; and the WHO declares that the outbreak is of potential international importance, under WHO's Global Alert and Response system in accordance with the IHR 2005.

I. INTRODUCTION

1. **IDA's crisis response architecture was significantly strengthened with the formalization of the CRW in IDA16.** Prior to IDA16, IDA's crisis support was mainly *ad hoc* and primarily relied on restructuring of existing projects or diversion of resources from country portfolios which affected activities contributing to the countries' long-term development goals. In the case of natural disasters, exceptional allocations were made which effectively reduced the allocations of other IDA countries. The absence of a dedicated funding mechanism was a key gap in IDA's flexibility to quickly respond to crises in countries hit by exogenous shocks. Participants at the first IDA16 meeting held in Paris in March 2010 sought to address this issue. At that meeting, they discussed broad principles for the setting up of the CRW and requested the Management for a formal proposal in this regard.

2. **The setting up of the dedicated CRW in IDA16 enhanced IDA's capacity to respond to natural disasters and economic crises in IDA countries.**² CRW's successful implementation in IDA16 prompted its continuation during IDA17 as Deputies considered it an important innovation in providing IDA the flexibility to respond rapidly to crises in a timely, transparent and predictable manner. They allocated an amount of about SDR0.6 billion, representing 2 percent of the IDA17 envelope for the CRW.³ Participants agreed that, if needed, this amount could be exceeded, subject to approval by the Executive Directors. They also supported the continuation of the implementation arrangements put in place in IDA16 to govern access to CRW resources. Participants further asked Management to provide an update on the utilization of CRW resources at the time of the IDA17 Mid-Term Review. This note is in response to that request and provides an update on the CRW's resource position. The note provides information on the specific crises where CRW support was provided which highlights the need to broaden the eligibility criteria and implementation arrangements for accessing CRW resources.

3. **This note is structured as follows:** Section II provides an update on the utilization of CRW resources in IDA17 and discusses options to top up its resources; Section III sets out the case for expanding the eligibility criteria for CRW support to include public health emergencies and epidemics; and Section IV sets out conclusions and issues for consideration.

II. UTILIZATION OF CRW RESOURCES IN IDA17

4. **IDA's emergency support has been extended to several crisis-hit countries since the start of IDA17.** So far, during IDA17, assistance from the CRW has been provided to eight countries, including three fragile states, hit by cyclones, floods, earthquake, and epidemic. See Box 1. The largest commitment was for the Ebola crisis in Guinea, Liberia and Sierra Leone – the worst outbreak of the disease since it was first discovered about four decades ago. CRW resources were also committed to fight flood emergencies in the Solomon Islands and Malawi. Vanuatu and Tuvalu were ravaged by cyclone Pam (described as a once in forty year event) and were extended

² Resources for the CRW were capped at 5 percent of total IDA16 envelope, and SDR1,335 million was set aside to finance expenditures under the CRW, including an exceptional allocation of SDR329 million for Haiti to support reconstruction after the earthquake in January 2010. During the IDA16 Mid-term Review, taking into account the utilization to date and likely demand for the remainder of period, an amount of SDR315 million was reallocated to increase support for a large unfunded pipeline of regional projects.

³ IDA, March 25, 2014, "Additions to IDA Resources: Seventeenth Replenishment, IDA17: Maximizing Development Impact".

assistance from the CRW. Lastly, CRW resources were committed to Nepal to deal with the aftereffects of the May 2015 earthquake – the worst in 80 years. Total CRW commitments have amounted to SDR592 million equivalent to about US\$863 million. See Table 1. Of this, 48 percent was allocated to deal with the Ebola crisis, 36 percent was committed for the earthquake, 10 percent for floods and 6 percent was provided to mitigate the hardship caused by cyclone Pam. Fifty-six percent of the CRW funds were grants, whereas the remaining were on credit terms.⁴ These resources have financed projects focused on immediate crisis response as well as those contributing to resilience building and longer-term development.

5. **The IDA17 CRW allocation of about SDR0.6 billion has been almost exhausted in the very first year of IDA17 replenishment cycle.** As several IDA countries were hit by severe exogenous shocks, the demand for the CRW resources has been high. Another factor that has contributed to depletion of the CRW is depreciation of the SDR against the US dollar⁵ which has reduced the US dollar value of the CRW resources. Remaining resources in the CRW now amount to only SDR2.7 million (Table 1) and are not sufficient to help another crisis hit IDA country during the remainder of the IDA17 replenishment cycle.

Table 1: CRW Allocations during IDA17			
Country	in SDR	in US\$	Remaining CRW balance (SDR)
			594*
Ebola Crisis (Guinea, Liberia, Sierra Leone)	282.7	420	311.3
Solomon Islands (Floods)	6.6	10	304.7
Malawi (Floods)	53.1	80	251.6
Vanuatu (Cyclone)	35.3	50	216.4
Tuvalu (Cyclone)	2.1	3	214.2
Nepal (Earthquake)	211.5	300	2.7

*Total IDA17 CRW Allocation was SDR594 million

⁴ The relatively high share of resources provided on grant terms reflects the decision to provide the US\$420 million for Ebola on grant terms, reflecting the global public goods nature of the response to the epidemic.

⁵ IDA17 Replenishment SDR/US\$ Exchange Rate was set at 1.50233. As of October 21, 2015, the SDR/US\$ Exchange Rate = 1.41283.

Box 1: CRW Support during IDA17

During the first year of the IDA17 replenishment period, resources from the CRW were committed to address the following crises:

In 2014, West Africa faced the largest outbreak of EVD in the nearly four-decade history of this disease in terms of geographical areas. After the initial outbreak in Guinea, the pandemic quickly spread to Sierra Leone and Liberia and by late March 2014, some 15 weeks after the first death, the epidemic was out of control. Since then, the virus has affected more than 26,000 people and more than 10,000 have died. The Bank group responded quickly to provide treatment and care, contain and prevent the spread of infections, help communities cope with the economic impact of the crisis, and improve public health systems. Total grants from the CRW to the three countries amount to US\$420 million. These have paid for essential supplies and drugs, personal protective equipment and infection prevention control materials, health worker training, hazard pay and death benefits to Ebola health workers and volunteers, contact tracing, vehicles, data management equipment, and door-to-door public health education outreach. The grants also provided budget support to help the governments of Guinea, Liberia and Sierra Leone cope with economic impact of the outbreak, and financing the scale-up of social safety net programs for people in the three countries.

Solomon Islands was hit by a tropical depression and strong rains in April 2014 which devastated the capital city, Honiara. The heavy rains reached their peak on April 3, 2014, with the highest ever recorded daily rainfall in the city. The tropical depression caused river banks to burst and led to severe flash flooding affecting 52,000 people (around 10 percent of the country's population), resulted in 23 confirmed fatalities, and forced 10,000 people into evacuation centers. The Damage and Loss assessment estimated total physical damages and longer term economic losses at US\$107.8 million, equivalent to about 9.2 percent of Solomon Islands' Gross Domestic Product (GDP). IDA supported reconstruction efforts with a commitment of US\$10 million from the CRW to finance immediate recovery needs, including urban and rural community infrastructure and livestock and seed replacement.

Malawi's seasonal rainfall in January 2015 was the highest on record, causing significant flooding – predominantly in the Southern Region. The flood risk model analysis done by the World Bank estimated the return period of the rainfall as 1 in 500 years. As a result, a state of disaster was declared for 15 out of 28 districts in the country. The Post Disaster Needs Assessment (PDNA) revealed serious impact on the population: an estimated 1,150,000 people were affected, 336,000 were displaced, 104 people died, 645 were injured and 172 went missing. The floods inflicted substantial damages on public and private infrastructure as well as social services, including private and community assets. The floods washed away livestock, household assets and livelihoods and destroyed or damaged thousands of buildings and community assets, including 89,110 hectares of crops, 1,200km of roads, 185 bridges, 500 schools and 22 health facilities. The PDNA estimated the damages at around US\$324 million (about 5.2 percent of GDP). The costs of recovery and reconstruction was estimated at US\$445.5 million. An amount of US\$80 million was committed from the CRW to help the Government's to finance emergency restoration of livelihoods and food security and for infrastructure rehabilitation and reconstruction.

Vanuatu was hit by category 5 cyclone Pam in March 2015 causing widespread damages on several of its islands. The cyclone affected 188,000 people (67 percent of the population) and 75,000 people (27 percent of the population) needed emergency shelter. The Pacific Catastrophe Risk Assessment and Financing Initiative (PCRAFI) parametric model indicates that loss on the scale experienced by Vanuatu as a result of cyclone Pam occurs about once in 40 years. Eleven people lost their lives and substantial damage was inflicted on Vanuatu's public, private and community assets; including infrastructure, livestock, household assets and livelihoods. It destroyed or severely damaged about 10,000 buildings and community assets, 450 classrooms, 218 kindergartens and 40 health facilities. According to the PDNA, damages and losses amounted to US\$447.1 million (approximately 64 percent of Vanuatu's GDP). IDA made a commitment of US\$50 million from the CRW to help the reconstruction efforts and ease pressure on the fiscal position.

Tuvalu was also hit by cyclone Pam in March 2015 causing major damage to its economy. It affected an estimated 4,000 people (40 percent of the population), substantially damaging crops and livestock in seven of the nine islands. The cyclone inflicted heavy damage on agriculture, housing and the critical coastal infrastructure, including the sea walls. The damages are estimated at US\$10.5 million (about 27 percent of GDP). The cyclone placed large unanticipated financing needs on Tuvalu threatening the country's long term fiscal sustainability in view of the burden of high reconstruction costs. To ease fiscal pressures and support infrastructure, IDA committed US\$3 million from the CRW.

Nepal was hit by a 7.8 magnitude earthquake in April 2015, causing destruction across much of the country. It was the worst earthquake to hit Nepal in 80 years. Almost ten million people – more than one-third of the population – were affected across 30 districts. The death toll surpassed 8,700, about 25,000 people were injured, over 500,000 homes were destroyed, and more than 2.5 million people were left homeless. The earthquake triggered extensive landslides and avalanches causing further damage and disruption in essential services. More than 3,000 public buildings were destroyed or damaged. Precious historical monuments and cultural icons have been lost entirely. PDNA data estimated total losses from the disaster at US\$7.2 billion (approximately 35 percent of GDP), and recovery and reconstruction needs at around US\$8 billion. IDA made a commitment of US\$300 million from the CRW to help the reconstruction efforts.

6. **To ensure that CRW is able to provide rapid response in the event of further crises over the remainder of the IDA17 period, there is a strong need to replenish it with additional resources.** The initial allocation of about SDR0.6 billion (about US\$900 million) was fully committed in the first year of IDA17. This is mainly due to CRW support to (a) Ebola Virus Disease (EVD) crisis in West Africa (US\$420 million); and (b) earthquake in Nepal (US\$300 million). The demand for CRW resources in the last two years of the IDA17 cycle is difficult to predict since crises are difficult to predict. As a result, Management proposes an additional allocation of US\$900 million, which is similar to the initial allocation for CRW. The allocation, however, would be contingent and, as a contingent allocation, this would reduce IDA's future concessional commitment capacity only to the extent that the funds are required to respond to crises in IDA17.

7. In view of the above, the Management proposes to make a contingent allocation of US\$900 million from the proposed Scale-up Facility to CRW to maintain IDA's ability to respond to crises. Any unused portion of the CRW resources would be made available to IDA countries on non-concessional terms (similar to those from the International Bank for Reconstruction and Development – IBRD terms).

8. **Management considered several options for allocating additional resources to CRW.** As noted in paragraph 2, while setting aside resources for the CRW in IDA17, Participants were cognizant of the possibility of CRW's early depletion. To deal with such a situation, the IDA17 Deputies' Report stipulates that the amount set aside for CRW could be exceeded, subject to approval by the Executive Directors. However, the Management also considered other options to replenish the CRW. These included, reallocation from FY17 countries' PBA allocations, reallocation from the Arrears Clearance Set-Aside, donor contributions, and allocation from the Scale-up Facility. The options to tap the arrears clearance set-aside and additional donor contributions were not pursued in view of the time that may be needed and to resolve issues, such as burden sharing, that may emerge. The other two options are discussed below:

- **Reallocation from FY17 countries' Performance-Based Allocation (PBA):** A reallocation of US\$900 million from the PBA allocations would mean a reduction in FY17 PBA allocations of about 8 percent. This reduction would be on top of the negative impact of the exchange rate changes since the start of IDA17. (Exchange rate movements since the start of IDA17 have negatively affected the dollar value of SDR denominated country allocations). While this is a plausible option it could affect resources already set aside for projects having long-term development impact. Therefore, this does not appear to be the best option.
- **Contingent Allocation from the Scale-up Facility:** The second option to replenish the CRW is to allocate resources from the proposed Scale-up Facility. The proposed scale-up facility would make available – on a one-off basis – up to US\$5 billion to IDA countries. Of this amount, a contingent amount of up to US\$900 million could be used to replenish the CRW⁶. The implementation arrangements for the resources transferred to the CRW will be the same as those agreed in the context of the IDA17 replenishment discussions. Given the unpredictable nature of the crises and the possibility that the amount may not be fully used, it is proposed that any unused portion of the CRW resources would be made available to IDA countries on non-concessional terms (similar to those from the

⁶ The remaining US\$4.1 billion – plus any unused portion of the CRW resources – would be made available to IDA countries on non-concessional terms (similar to those from the International Bank for Reconstruction and Development – IBRD).

International Bank for Reconstruction and Development – IBRD terms). This solution avoids the need to set aside scarce concessional resources that would otherwise be allocated to all countries through the PBA in the last year of IDA17. As such, an allocation of US\$900 million to CRW from the Scale-up Facility would not affect the PBA allocations.

III. EXPANDING THE ELIGIBILITY CRITERIA FOR ACCESSING CRW

9. **The CRW was designed to provide IDA countries with additional resources to help them respond to severe economic crises and major natural disasters and to ease the impact on their long-term development path.**⁷ The CRW is not expressly designed to provide support in case of public health emergencies and epidemics. The question of including public health emergencies and epidemics in the CRW framework was discussed when it was formally set up in IDA16. At that time it was felt that responding to public health emergencies and epidemics is qualitatively different from responding to other natural disasters. Dealing with public health emergencies also needed to include resources to control the emergency before it spreads and causes additional harm. It was concluded that this aspect required a better understanding of the operational enhancements IDA needed to respond to a public health emergency where extremely rapid financing is needed in order to contain the epidemic.⁸

10. **The outbreak of the EVD in West Africa underscored the need for rapid and coordinated response to deal with public health emergencies.** It is a widely held view that EVD was able to become a large scale emergency in the absence of an early and coordinated global response. The outbreak was particularly challenging because of the characteristics of the virus and because health care systems and public health infrastructure in the affected countries were extremely fragile. A communication gap between governments and communities further undermined the efficacy of the emergency response.⁹ Government messaging sometimes competed with alternative explanations of the Ebola outbreak. In rural areas in particular, but also in urban centers, a low level of confidence in public institutions caused affected communities/people to turn to traditional leaders who had themselves been marginalized from governance structures and, therefore, were not effectively included in the response. The cohesion of affected communities also weakened significantly, as health care workers, Ebola survivors and burial teams were stigmatized and rejected by their communities. A Public Health Emergency of International Concern (PHEIC) was announced by the WHO on 8 August 2014. The declaration served to mobilize resources for the response.

11. **A timely global response, including having in place a rapid financing mechanism, could have greatly enhanced the effectiveness of the Ebola response and this is a key lesson from the experience.** The World Bank Group (WBG) tapped the CRW as an exception in leading the global response, along with other organizations, to the crisis. The nature and characteristics of the public health emergencies, and the positive impact the WBG response had in mobilizing the international community to respond to the Ebola emergency in the summer of 2014, highlighted the need for a mechanism that could support global response in managing future outbreaks.

⁷ IDA, March 2011 “Additions to IDA Resources: Sixteenth Replenishment, IDA16: Delivering Development Results”.

⁸ See IDA, May 2010 “Proposal for a Permanent Crisis Response Window in IDA (page 2)”.

⁹ UN/WBG/EU/AfDB. 2015. “Recovering from the Ebola Crisis”. Submitted by United Nations, The World Bank, European Union and African Development Bank as a contribution to the formulation of national ebola recovery strategies in Liberia, Sierra Leone and Guinea

12. **The CRW proved critical in the design and financing of the WBG response to the EVD crisis.** The Executive Directors' Seminar on the EVD outbreak in West Africa on August 5, 2014 discussed the Bank's proposed emergency recovery and medium-term response and expressed strong support for the use of CRW resources in addressing the EVD outbreak as an exception. The Bank's support was recognized as a regional and global public good with positive externalities in containing and mitigating a fast moving epidemic.

13. **The Ebola case demonstrated the importance of Bank support in enabling affected countries to respond immediately to the crisis, to mitigate human and economic impacts, and to ensure that social stability is maintained.** Some public health emergencies (just like financial crises) have substantial global externalities. In these cases, immediate support is justified on global public good grounds, and in some public health emergencies the response measures may be exclusively preventive. Many IDA countries may not have the financial capacity to implement such measures and may require assistance from multilateral and bilateral sources. In the case of low income countries, accessing these resources may also make sense in nationally declared public health emergency with little potential for global externalities. In this case, rapid action will be necessary when the magnitude and scope of the public health emergency is beyond the ability of the country to control it, and poses a high burden of disability and/or death, or the risk of major economic and social disruption as we have seen with Ebola in West Africa. A year after the onset of Ebola, the estimated GDP losses for the three Ebola-affected countries through 2015 total US\$2.2 billion (US\$240 million for Liberia, US\$535 million for Guinea and US\$1.4 billion for Sierra Leone). The outbreak strained the finances of governments, and additional expenditure to contain the Ebola crisis amidst drastic shortfalls in domestic revenue increased national deficits¹⁰.

14. **The experience with EVD has prompted WBG to reinforce its suite of instruments to respond to future public health emergencies.** The effort includes the development of a *Pandemic Emergency Financing Facility* (PEF), in consultation with the WHO. The PEF seeks to make resources available rapidly to respond to a disease outbreak before it takes on pandemic proportions. This approach was endorsed at the G7 Leaders' Summit in June 2015. The summit declaration noted that the Ebola outbreak has shown that the timely mobilization and disbursement of appropriate response capacities, both funding and human resources, is crucial. The Leaders welcomed the ongoing development of mechanisms including by the WHO, the World Bank and the International Monetary Fund (IMF) and called on all partners to strongly coordinate their work. They also supported the initiative taken by the World Bank to develop a PEF and encouraged the G20 to advance this agenda. The Leaders resolved to coordinate to fight future epidemics and to set up or strengthen mechanisms for rapid deployment of multidisciplinary teams of experts coordinated through a common platform. These mechanisms are to be implemented in close cooperation with the WHO and national authorities of affected countries.¹¹

15. **One of the key pillars of the PEF, under discussion with the private sector, is an insurance mechanism.** This insurance mechanism is designed to provide assistance in the event of a health crisis. In case a pre-agreed parametric trigger is activated, the private sector would make the pre-determined payouts to the PEF. In turn, the PEF would disburse resources to finance critical response measures via governments, international organizations or NGOs. The mechanism would be able to disburse resources quickly once the pre-agreed trigger is activated, rather than relying on a loss assessment, which typically takes time. The design draws on the experience with

¹⁰ WBG. "Update on the Economic Impact of the 2014-2015 Ebola Epidemic on Liberia, Sierra Leone and Guinea". April 15, 2015.

¹¹ See Leaders' Declaration G7 Summit 7-8 June 2015, page 10.

the Caribbean and Pacific Catastrophic Risk Insurance (CPCRI) facilities developed by the WBG with partners.¹²

16. **A well-functioning PEF is expected to provide immediate support following a pandemic outbreak to finance response measures.** Additional resources, if required to meet the post-crisis recovery needs, as informed by the loss assessment, would have to come from bilateral and multilateral sources, including the CRW. As in the recent case of Ebola epidemic, access to CRW resources for public health emergencies could be provided based on following considerations:

- **Global public goods dimension.** Some public health emergencies have the potential to become an international threat. In those cases the associated problems and solutions reach across national borders, resulting in the need for international collective action. Creating the incentives for countries to alert the relevant international authorities about such occurrences, and take immediate remedial actions to minimize the spread of the threat constitutes a global public good. IDA's client countries may require urgent additional funds to take the adequate control measures in the face of a rapid spread of an epidemic.
- **National public goods dimension.** Some public health emergencies do not present an international threat, but their potential impact on domestic mortality and morbidity, and widespread economic and social impact as witnessed in the Ebola-affected countries of West Africa, require control measures well above what the country resources and health systems can bear.
- **Socio-economic impact.** The Ebola crisis, and experience with previous infectious disease outbreaks, indicates that there are two major types of socio-economic impacts. First, there are potentially severe negative demand shocks and supply disruptions as people spontaneously try to reduce person-to-person contacts, to avoid becoming infected, particularly affecting service sectors such as tourism, retail trade, transport and entertainment. Official public health measures such as the temporary shut-down of non-essential activities or quarantines can have similar effects. Second, to the extent that additional preventive actions fail to prevent an epidemic or global pandemic, there will be a tragic human toll in illness and death and, in economic terms, various costs of illness. These include direct costs, such as medication and hospitalization, and indirect costs, which include losses to economic production, trade, and investment as a result of the illness or death of workers (including health workers)¹³ and by widespread fear as we have seen in the case of Ebola in West Africa.

17. **Building on the experience with using CRW resources for EVD and the possible future need to respond to such events, Management believes the eligibility criteria for CRW should be expanded to cover public health emergencies and epidemics in IDA countries that are of potential international importance.** In terms of the specific conditions that would need to be in place in order to consider CRW access, Management believes the following would allow for adequate targeting of scarce CRW resources:

¹² For example, in March 2015, the pilot insurance mechanism for the Pacific quickly provided an initial US\$2 million payout to Vanuatu for urgent relief and recovery needs following the devastating Tropical Cyclone Pam.

¹³ Evans, D.K., Goldstein, M. and Popova, A. 2015. "The Next Wave of Deaths from Ebola? The Impact of Health Care Worker Mortality." Policy Research Working Paper 7344. Washington, D.C.: The World Bank Group.

- The IDA country affected by a public health emergency or epidemic would need to have declared a national public health emergency; and
- The WHO would need to declare that the outbreak is of potential international importance, under WHO's Global Alert and Response system in accordance with IHR, 2005.¹⁴

18. To mitigate moral hazard, CRW access would be available only as a last resort. To calibrate the amount of resources that could be provided, Management would factor in financing from other bilateral and multilateral sources, including the progress made on the PEF, and would also consider whether the country is compliant with international health reporting obligations, in particular to the WHO. Once the proposed PEF is fully operational, CRW would become a secondary source of finance in the case of public health emergencies. Its focus will be on providing additional funds to stop the spread of an epidemic if the PEF and other mechanisms have proved insufficient, and not on its long term effects, which can be better mitigated through normal IDA country allocations. The implementation arrangements that Management would follow in the case of public health emergencies are set out in the revised operational guidelines for the CRW. See Annex 1.

IV. CONCLUSIONS AND ISSUES FOR CONSIDERATION

19. This paper has reviewed the utilization of CRW resources during IDA17 and made the case for an additional allocation to ensure that CRW retains its ability to support IDA countries that face crises over the remainder of IDA17. The paper also proposes that the eligibility for access to CRW resources should be expanded to include public health emergencies. Staff welcome the views of Deputies on the following:

- A contingent allocation of US\$900 million from the proposed Scale-up Facility to CRW to maintain IDA's ability to provide additional financing to countries affected by severe economic crises, natural disasters, and public health emergencies. Any unused portion of the CRW resources would be made available to IDA countries on non-concessional terms (similar to those from the International Bank for Reconstruction and Development – IBRD terms).
- Expansion of the eligibility criteria for accessing the CRW to include public health emergencies and epidemics in IDA countries that are of potential international importance. To access CRW resources countries would need to declare a national public health emergency and WHO would need to declare that the outbreak is potentially of international importance, under its Global Alert and Response system in accordance with the 2005 IHR.

¹⁴ The IHR, which was adopted by the Member States of the World Health Organization (WHO) at the 58th World Health Assembly in 2005 and came into effect in 2007, not only mandates the 196 States to develop the core capacities required to detect, assess, report, and respond to potential public health emergencies of international concern, but also institute a formal notification and communication process between appointed entities within a country (the National IHR Focal Points) and WHO. IHR Article 11 provides for WHO to share information with international organizations if evidence suggests that a public health threat will most likely not be contained without an international response. Crucially, WHO can share this information prior to the declaration of a PHEIC by the Director-General if WHO determines any of the following: that the risk has spread beyond international borders; existing control measures are unlikely to succeed in controlling international spread; the affected country lacks the capacity for response; or the nature of the event requires immediate international control measures.

Operation of the Crisis Response Window

1. This annex sets out the implementation arrangements that Management would follow in order to access CRW resources in case IDA countries were affected by severe economic crises and natural disasters during the IDA16 period. These arrangements include Board involvement and oversight at all stages of the process, including through consultation, approval of resources levels, and approvals of specific operations.

A. CRW Support in Case of Economic Crisis

2. To trigger access to CRW resources, Management would present its analysis of the nature of the shock and the severity of the impact on IDA countries and its recommendation for approval by Executive Directors. The paper seeking Board approval would: (i) demonstrate that responding to the crisis is in line with CRW objectives and guiding principles. In particular, the note would demonstrate that the shock has a severe impact on a significant number of countries and that it has been caused by exogenous factors; (ii) propose the overall volume of CRW resources to be allocated in response to the event and present its rationale. The proposal will need to factor in the nature and scope of the crisis as well as the resources available in the CRW. It should also highlight if additional donor contributions are deemed warranted; and (iii) propose the framework for allocating the approved resources across countries and present its rationale. The specific guidelines with respect to the trigger, country eligibility, fiscal analysis, allocation framework, use of funds and terms are described below.

3. Where an economic crisis is caused by external terms of trade shocks or financial market disruptions, Management would also reflect the views of IMF staff on the overall extent and nature of the shock and, to the extent possible, the impact on the individual countries and relevant information regarding their macroeconomic policy framework drawing primarily on existing publicly available IMF report(s). In addition, IMF management would be invited to the Board discussion of this paper so that Executive Directors could seek such clarifications from the IMF as they may need. Individual operations would be submitted subsequently for Board approval on an accelerated basis and in accordance with existing World Bank policies and procedures. As is current practice, the staffs of the Bank and IMF would collaborate closely on individual country cases.

4. Trigger: CRW support would be triggered by evidence of a crisis that is caused by an exogenous shock and affects a significant number of IDA countries. Specifically, the crisis should be expected to result in a widespread or a regional year-on-year GDP growth decline of 3 percentage points or more in a significant number of IDA countries. The projected year-on-year GDP growth decline will be assessed using data from the IMF's World Economic Outlook (WEO) database. Support from the CRW could also be considered in the event of a severe price shock that did not result in a GDP growth decline in line with this trigger if: (i) the shock is broad based and deemed severe in terms of fiscal impact (i.e., additional spending for targeted interventions to protect vulnerable groups); (ii) there is consensus that a concerted international response is needed; and (iii) the existing IDA country allocations are deemed insufficient to provide an adequate response.

5. Country eligibility: All IDA countries are in principle eligible for CRW support. The eligibility of specific countries would be determined primarily by the expected impact of the crisis

on GDP. A year-on-year decline of GDP growth of 3 percentage points or more would be the threshold to identify countries that could be eligible for CRW support. This preliminary ringfencing would be vetted by an analysis of available fiscal data and other relevant data in line with the CRW objective to protect or mitigate the impact on core spending in the short-term and avoid derailing long-term development objectives (e.g., the magnitude of the impact of the crisis, access to alternative sources of financing, and ability to finance recovery using the country's own resources). As a result of such analysis, countries where the crisis did not have a significant fiscal impact could be excluded from CRW support eligibility, even if they did experience the 3 percentage point decline in GDP growth.

6. Fiscal analysis: The fiscal analysis required to support assessments of country eligibility and the allocation framework would cover government revenues, spending and financing plans to estimate the core development spending at risk. Core development spending at risk is defined as the amount needed to maintain the pre-existing path of spending on education, health and operations and maintenance of existing infrastructure, and to maintain, or potentially increase depending on the nature of the crisis, spending on safety nets.

7. Allocation of resources among eligible countries: The allocation framework would follow a two-stage approach based primarily on the fiscal analysis above. Countries with the greatest impact would receive proportionately more resources than those with a lower impact.

- In the first stage, the bulk (at least 75 percent) of the resources would be allocated. In the second stage, allocations would be adjusted (using the share of resources not allocated in the first round) in light of additional country specific information related to crisis impact, resource requirements and capacity to mobilize an effective response through the use of additional resources. The allocation framework would calculate allocations on a per capita basis (to take account of country-size).
- While designing the allocation framework, consideration would be given to include: (i) a base allocation to ensure a meaningful response, particularly for small states; and (ii) a cap to the resources allocated to any one country or group of countries (in the case of the pilot-CRW the cap was set at 5 percent of total resources); such a cap could be particularly relevant in cases where the same event affects countries or groups of countries with different lags to avoid the risk of a first-come first-served approach that could lead to depletion of finite resources.
- Finally, in the second stage, a country's allocation could be increased by up to 33 percent above the Stage 1 allocation by the region. Allocations under Stage 2 would be based on the following criteria: country impact, resource needs and availability, and ability to effectively use resources. To ensure transparency in the use of Stage 2 allocations, country teams would use a standard template to request CRW resources under Stage 2. Management would submit a note to the Board with details of second stage allocations in advance of project approvals financing from second stage allocations.

8. Use of funds: Allocated CRW resources are expected to be rapidly processed using accelerated procedures. Teams would be encouraged to utilize instruments which result in projects being rapidly implemented. Consequently, the bulk of the projects are expected to be provided through Additional Financing for investment credits or grants, supplemental Development Policy Operations or grants and/or Emergency credits or grants. In line with existing IDA policies, there will be no sectoral or thematic earmarking under the CRW, though project selection would be expected to reflect the findings of the fiscal analysis undertaken at the trigger/allocation stages.

Countries would be encouraged to give priority to use the resources to protect core spending on health, education, social safety nets, infrastructure, and agriculture.

9. Terms: The terms of assistance are identical to those under which IDA assistance is provided to a particular country.

B. CRW Support in Case of Natural Disasters

10. In the immediate aftermath of a severe disaster Management will inform the Board of its intention to access CRW resources. Management would demonstrate that CRW support would be an appropriate part of the Bank's overall response, complementary to that of the UN, and provide an early estimate of the support to be provided under the CRW with a clearly spelled out rationale. This estimate will be conservative and subject to adjustment as better information becomes available. Board approval for the provision of CRW support as well as the proposed amount will be sought as part of the documents for the projects financed by the CRW.

11. Trigger: The CRW would be triggered only in case of natural disasters that are exceptionally severe and intense. Parametric data on disaster frequency and impact would be used to corroborate the extent to which an event would qualify for CRW resources, but would not be the only basis of eligibility.¹⁵

12. Allocation of resources: IDA management would follow a two stage process that takes account of the need to provide an early signal regarding the potential availability and quantum of resources, while also reserving the flexibility to adjust decisions as more information becomes available.

13. In the first stage, in the immediate aftermath of catastrophic natural disasters Management would review available impact data to form an early assessment regarding the need to access CRW resources. As immediate post-disaster impact data will tend to be limited and evolving, this assessment may also take account of whether the affected country has: (a) issued a declaration of emergency; (b) requested CRW resources; and (c) requested a PDNA or a Damage and Loss Assessment (DaLA).¹⁶ Lastly, it would take account of the World Bank Group's capacity to respond without accessing the CRW. It should also outline cooperation with the UN, in particular with Office for the Coordination of Humanitarian Affairs (OCHA).

14. In the second stage, the initial impact data would be validated with the outcomes of PDNA/DaLA and other information, in order to calculate a final allocation. The final decision on the size of the CRW allocation will be informed by IDA's past practice and would take account of the following factors: (i) information on the severity of the crises and cost of recovery from PDNA/DaLAs; (ii) number of affected persons (defined as persons rendered homeless and/or incurred loss of income or livelihood); (iii) estimates of impact on GDP; (iv) availability of resources to respond to the crisis from: (a) the IDA portfolio; (b) domestic sources; and (c) other external financing (including IBRD); and (d) the amount of resources left in the CRW; (v)

¹⁵ Parametric data such as the magnitude of an earthquake on the Richter's Scale do not accurately reflect the impact of a disaster, since the severity of impact also depends on for example, disaster preparedness and proximity to human settlements.

¹⁶ PDNAs/DaLAs provide a reliable, internationally recognized and government-owned mechanism to verify the impacts (damage and losses) of a disaster. They would also: (a) provide a comprehensive estimate of overall and multi-sectoral disaster recovery needs; (b) incorporate disaster risk reduction as an agreed element of the disaster recovery framework; and (c) reflect multi-stakeholder consensus over sectoral recovery strategies.

absorptive capacity; (vi) issuance of UN Flash Appeal; and (vii) country size (e.g., small states status).

15. Terms: The terms of assistance are identical to those under which IDA assistance is provided to a particular country.

C. CRW Support in Case of Public Health Emergencies

16. In the immediate aftermath of a public health emergency Management will inform the Board of its intention to access CRW resources. Management would demonstrate that CRW support would be an appropriate part of the Bank's overall response, complementary to that of the UN and other development partners, and provide an early estimate of the support to be provided under the CRW with a clearly spelled out rationale. This estimate will be conservative and subject to adjustment as better information becomes available. Board approval for the provision of CRW support as well as the proposed amount will be sought as part of the documents for the projects financed by the CRW.

17. **Trigger:** The CRW would be triggered only in case of a public health emergency when: (i) a country affected by a public health emergency or epidemic has declared a national public health emergency; and (ii) The WHO has declared that the outbreak is of potential international importance, under WHO's Global Alert and Response system in accordance with the International Health Regulations (IHR), 2005.

18. **Allocation of resources:** IDA management would follow a two stage process that takes account of the need to provide an early signal regarding the potential availability and quantum of resources, while also reserving the flexibility to adjust decisions as more information becomes available.

19. In the first stage, upon the declaration of in a public health emergency, Management would review available impact data to form an early assessment regarding the need to access CRW resources. This assessment may also take account support from the PEF when operational, and whether the affected country and WHO has: (a) issued a declaration of public health emergency; (b) requested CRW resources; and (c) requested a Needs Assessment.¹⁷ Lastly, it would take account of the World Bank Group's capacity to respond without accessing the CRW.¹⁸ The assessment would also take into consideration cooperation with the United Nations (UN), in particular with WHO, and other development partners.

20. In the second stage, the initial impact data would be validated with the outcomes of the needs assessment and other information, in order to determine a final allocation. The final decision on the size of the CRW allocation will be informed by IDA's past practice and would take account of the following factors: (i) information on the severity of the emergency and cost of response; (ii) number of affected persons (defined as persons affected and/or incurred loss of income or livelihood); (iii) estimates of impact on GDP; (iv) availability of resources to respond to the crisis from: (a) the IDA portfolio; (b) domestic sources; and (c) other external financing (including IBRD and PEF); and (d) the amount of resources left in the CRW; (v) absorptive capacity; (vi) issuance of UN Flash Appeal; and (vii) country size (e.g., small states status).

¹⁷ This would: (a) provide a comprehensive estimate of overall needs done in collaboration with other partners including the WHO; (b) incorporate impact on countries' economies and public finances; and (c) reflect on the impact of the public health emergency on the countries' medium/long-term development goals.

¹⁸ This would include assistance from the proposed Pandemic Emergency Facility.

21. **Terms:** The terms of assistance are identical to those under which IDA assistance is provided to a particular country, unless other provisions are made.