

## **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.<sup>1</sup>

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).<sup>2</sup> 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)

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<sup>1</sup> 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.

<sup>2</sup> 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.<sup>3</sup> Lastly, it would take account of the World Bank Group's capacity to respond without accessing the CRW.<sup>4</sup> 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).

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<sup>3</sup> 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.

<sup>4</sup> 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.