September 8, 2015
Approval: 9/15/15

INTERNATIONAL MONETARY FUND

Minutes of Executive Board Meeting 15/12-2

10:50 a.m., February 4, 2015

2. Proposal to Enhance Fund Support for Low-Income Countries Hit by Public Health Disasters

Documents: SM/15/14 and Correction 1, and Correction 2, and Supplement 1, and Supplement 2, and Supplement 3, and Supplement 3, Rev. 1, and Supplement 4, and Supplement 5

Staff: Andrews, FIN; Leckow, LEG; Nolan and Lane, SPR

Length: 2 hours, 14 minutes

Executive Board Attendance

C. Lagarde, Chairman

Executive Directors	**Alternate Executive Directors**
C. Kapwepwe (AE)	
	W. Diallo (AF)
	V. De la Barra (AG), Temporary
	I. South (AP), Temporary
	I. Oliveira Lima (BR)
	P. Sun (CC)
F. Jimenez Latorre (CE)	
S. Dupont (CO)	
I. Çanakci (EC)	
H. de Villeroché (FF)	
	S. Meyer (GR)
R. Mohan (IN)	
	C. Quaglierini (IT), Temporary
M. Kajikawa (JA)	
	M. Daïri (MD)
H. Beblawi (MI)	
M. Snel (NE)	
	P. Meyersson (NO)
A. Mozhin (RU)	
	H. Alogeel (SA)
W. Santoso (ST)	
D. Heller (SZ)	
M. Haarsager (US)	
S. Field (UK)	

J. Lin, Secretary
J. Morco, Summing Up Officer
A. Bala/D. Kovacevic, Board Operations Officers
P. Martin, Verbatim Reporting Officer

Also Present

African Department: C. Delechat. Asia and Pacific Department: J. Nelmes. Communications Department: N. Farhan, J. Mark. Finance Department: D. Andrews, C. Geiregat, P. Jenkins, A. Tweedie, O. Unteroberdoerster. Legal Department: R. Leckow, C. Ogada, G. Otokwala, G. Rosenberg. Strategy, Policy, and Review Department: O. Adedeji, G. Fernandez, D. Ghura, J. Gieck, C. Lane, S. Maslova, S. Nolan, S. Tiwari, H. Weisfeld. Alternate Executive Director: S. Geadah (MI), C. Just (EC). Senior Advisors to Executive Directors: S. Bah (AF), A. Landbeck (GR), T. Lessard (CO), G. Letilly (FF), A. Marcussen (NO), R. Ngugi (AE), R. N'Sonde (AF), S. Rouai (SA), K. Watanabe (JA), G. Zuniga-Villasenor (CE). Advisors to Executive Directors: M. Atamanchuk (RU), E. Boukpessi (AF), J. Clicq (NE), O. Diakite (AF), F. Dlamini-Kunene (AE), G. Gasasira-Manzi (AE), M. Govil (IN),

M. Kapur (IN), I. Lopes (IT), O. Mamadou (AF), M. Matsutani (JA), M. Mehmedi (EC), G. Nadali (MD), W. Orie (BR), L. Piana (FF), T. Remengesau (AP), R. Teng (CC), A. Weller (US), T. Yamuremye (AE), H. Zavarce (CE).

2. PROPOSAL TO ENHANCE FUND SUPPORT FOR LOW-INCOME COUNTRIES HIT BY PUBLIC HEALTH DISASTERS

Mr. Geadah and Ms. Choueiri submitted the following statement:

We thank staff for the paper and the helpful informal sessions prior to this meeting. The paper responds to the international community's call to support countries severely hit by the Ebola outbreak by expanding the circumstances under which the Fund's poorest countries can receive grant assistance to pay off debt service. The staff suggests that this would apply in situations where the member is experiencing an epidemic of an infectious disease that constitutes a significant threat to lives, economic activity, and international commerce across many countries. We broadly support the staff proposals and would like to raise a few issues for further clarification.

The typology of natural disasters includes natural and public health events. We wonder if large displacements of populations or inflows of refugees that affect economic activity and/or public health in a meaningful manner can be included in this classification.

We can support the proposed conditions to access the Catastrophe Containment Window (CCR), namely an exceptional balance of payments need arising from a Qualifying Public Health Disaster and an appropriate macroeconomic policy framework to address it. We also do not oppose the choice of the amount of grant support, i.e. 20 percent of the member's quota, although we would be interested in additional background on how it was decided. The rationale for exceeding this amount for the cases detailed in paragraph 36, is however not clear to us as it would introduce an element of judgment and could lead to differentiated treatment among members depending, among others, on their level of indebtedness. The staff's views would be appreciated.

It is proposed that the sources of initial financing for the proposed CCR include use of the balances in the PCDR Trust and the MDRI Trusts. Additional bilateral contributions of about SDR 85-95 million would be also needed. We are concerned that this fund-raising could compete with securing the financing for the PRGT, which will be used by member countries on a much more regular basis than the proposed CCR. The staff's comments are welcome.

Mr. Alshathri and Mr. Rouai submitted the following statement:

We thank staff for their work and outreach, which allowed us to clarify a number of important issues and be in a position to support the proposed decisions. We would like to make the following comments.

We are happy to note that the Fund has played a leading role in providing financing to countries affected by the Ebola outbreak. The emergency assistance disbursed last September to Guinea, Liberia, and Sierra Leone, was in our view critical in helping these countries cover some of the balance of payment and fiscal needs associated with the crisis. This timely support has also contributed to containing the outbreak and we would appreciate an update from staff on recent Ebola developments in the affected countries, and beyond, where warranted.

We support Fund's efforts to tailor its financial support to countries' particular circumstances and to expand the circumstances under which exceptional assistance could be provided to LICs to allow them to pay off upcoming debt service to the Fund, thus freeing up resources for epidemic containment and rehabilitation spending.

We can support the framework proposed by staff, in particular the transformation of the Post Catastrophe Debt Relief (PCDR) Trust into a Catastrophe Containment and Relief (CCR) Trust with two windows: one, the Post-Catastrophe Relief (PCR), replacing the current PCDR and a second window, the Catastrophe Containment (CC) to provide exceptional grant support to help LICs contain the spread of epidemics.

We agree with the eligibility criteria proposed by staff to allow the Board to provide grant assistance under the CC when the country is confronted with a Qualifying Public Health Disaster (QPHD). We also agree with the proposed limit of 20 percent of the member's quota and with the options to increase this support beyond 20 percent of quota, as specified in paragraph 36 and Box 4.

We take note of the projected financing needs, estimated by staff at SDR 240 million to cover both catastrophe containment and post-catastrophe relief. We consider that these estimates are sensible and would leave room for additional potential support, particular in view of the successful containment of the Ebola virus in the three affected countries and the limited spillover to other countries.

Finally, we support the proposed sources of financing, namely the transfer of the current balance of the PCDR and MDRI-I Trusts to the CCR Trust, to be complemented by the liquidation and transfer of the remaining balances in the MDRI-II Trust to the CCR Trust and by additional bilateral contributions.

Ms. Kapwepwe and Ms. Manzi submitted the following statement:

We thank staff for working expeditiously in bringing to the Board the proposed reforms to the mechanism for addressing the exceptional balance of payments needs faced by poor countries affected by catastrophic disasters. It is indeed commendable that the Fund has responded swiftly to the G20's call, and those of the wider international community, to continue their support for the three countries severely hit by the Ebola outbreak—Guinea, Liberia and Sierra Leone—and other low-income countries that could face similar catastrophes in future.

As underscored by staff, the risk of not having substantial external support for containment efforts in the wake of the Ebola crisis could have had significant economic disruption across countries and resulted into a full blown pandemic. While there are positive indications of a downward trend of the disease in the sub-region, the magnitude of the socioeconomic and public health challenges faced by the affected countries going forward cannot be overstated.

The creation of the Catastrophe Containment Window (CC) strengthens the Fund's role in responding to these shocks by providing a flexible mechanism that extends coverage to different types of disasters. We therefore support staff's proposal to transform the PCDR Trust into a Catastrophe Containment and Relief (CCR) Trust, as well as the financing considerations outlined in the paper. We also solicit Directors' support for this laudable reform initiative by the Fund and encourage development partners to provide the required financial resources to ensure that the trust is fully financed over the medium term.

We urge staff to maintain flexibility in the qualification criteria for both the Post-Catastrophe Relief Window (PCR) and the Catastrophe Containment Window (CC) for debt service relief considering the difficulties arising out of such catastrophes. At the same time, it is imperative that the CCR Trust not only facilitates the recovery of affected countries but helps enhance their resilience to any future shocks. In this regard, we urge staff to consider the clearance of all eligible debt even above the 20 percent of member's quota as is being done with the PCR Window, subject to the prevailing conditions and availability of resources.

We note that eligible debt would include credit outstanding from the PRGT and GRA at the time that the determination of qualification for assistance from the CCR Trust is made and not credit committed concurrently with or after the decision of qualification for CCR. However, following debt relief under the CCR Trust, it would be beneficial if any subsequent Fund arrangements with the concerned countries are structured in such a way that ensures benefits already achieved from this facility are not undermined.

Mr. Haarsager and Mr. Weller submitted the following statement:

We welcome the IMF's strong engagement and its proactive efforts to address the economic impacts in Guinea, Liberia, and Sierra Leone as the international community supports these countries in combating the Ebola epidemic. The Fund's timely commitment of US$130 million in emergency assistance was vital in filling a substantial financing gap, and we welcome its intention to further augment this assistance.

The United States has been, and will continue to be, a major contributor to efforts to combat Ebola and the spread of other infectious diseases. To date, we have spent over US$1 billion in fighting Ebola on the ground. Congress recently approved US$5.4 billion in Ebola-related funding, of which a significant share is earmarked for directly supporting the United States on-the-ground response in Guinea, Liberia, and Sierra Leone. The United States is also dedicating substantial resources to accelerate the development of safe and effective Ebola treatments and vaccines, and we are committed to building deeper global health security and resilience, including in West Africa.

As we move beyond the immediate response to the crisis, it is appropriate to consider how the international community can best address the ongoing and still significant needs of Ebola-impacted countries and, more broadly, enhance its support to countries affected by health pandemics in the future.

In this light, we strongly support management's proposal, and associated decisions, to enhance Fund support for low-income countries hit by public health disasters. The proposal would expand debt relief under the PCDR to any country experiencing severe economic dislocation from a health pandemic. In the near term, of course, it will be especially helpful to the three countries that have been severely impacted by the Ebola epidemic.

Though the rate of new infections has recently declined, the economic impact of Ebola in some of Africa's most fragile economies has been substantial and will likely persist long after the outbreak is officially declared over. Debt relief would help promote economic sustainability in the three Ebola-impacted countries by freeing up resources both for immediate health care needs and for longer-term recovery efforts. Assisting these economies now and allowing them to focus scarce resources on healthcare spending and the economic recovery also serves broader interests by limiting the potential spread of disease and economic fallout across the region.

We have five specific comments on the staff's proposal.

First, we support management's proposal to use remaining balances in the MDRI-1 and 2 trusts to augment the proposed Catastrophe Containment and Relief Trust (CCR), noting that there is no remaining debt that would be eligible for MDRI relief. We are pleased to announce that our authorities support the transfer of the remaining balances in MDRI-2 attributable to the United States to the CCR.

Second, paragraph 24 suggests that the provision of debt relief would be expected to occur as part of a broad package of bilateral and multilateral support. This would ideally be the case, but explicitly conditioning debt relief on such assistance could significantly delay the Fund's response to disasters. We would appreciate if the staff could reaffirm their commitment from the informal Board briefing that the Fund's provision of debt relief under the CCR will not be contingent on assistance provided by other partners.

Third, the proposed qualifying criteria strikes a sensible balance, in our view, between ensuring uniformity of treatment and focusing limited resources on those countries experiencing severe economic dislocation from catastrophes and public health disasters. We support the proposed limit of 20 percent of the member's quota in the case of the Catastrophe Containment Window as well as the option to increase this support beyond 20 percent in exceptional cases.

Fourth, we recognize that it is a challenge to develop a set of economic criteria for what constitutes a severe public health disaster. The proposal shows, however, that the staff has drawn on extensive empirical evidence to develop models of the economic impact of pandemics. We find these credible.

Finally, we recognize the benefits of replenishing the CCR in order to bolster its capacity to respond to future catastrophes and health disasters. However, per paragraph 49 and footnote 27, we note that the remaining balance in the CCR after the transfer of MDRI-1 resources and relief to Guinea, Liberia, and Sierra Leone, will be sufficient to provide assistance via both the Post-Catastrophe Relief Window and the Catastrophe Containment Window in the majority of potential cases in the near term.

Mr. Kajikawa, Mr. Watanabe and Mr. Matsutani submitted the following statement:

General Remarks

We thank staff for their efforts to present the proposal to the Board. Considering the utmost importance of the Fund's participation in international efforts to contain the Ebola epidemic in parts of West Africa and to support the urgent financing needs of the affected countries, we support the proposal to transform the Post Catastrophe Debt Relief (PCDR) Trust into a Catastrophe Containment and Relief (CCR) Trust with two windows, and the associated decisions. The timely establishment of the CCR is not only consistent with the commitment of the latest IMFC communiqué, but also appropriately responds to the request from the international community for the Fund's support.

In this regard, the G20 Leaders' Brisbane Statement on Ebola refers to the IMF initiative to make available a further US$300 million through a combination of concessional loans, debt relief and grants. We would appreciate staff's elaboration on the actual/envisaged breakdown figures between these three components. In addition, we would also like to ask staff's clarification as to whether this CCR debt relief, which is in the form of up-front grants, should be legally/conventionally categorized as either debt relief or grants.

Our comments on specific proposals are as follows:

Design of the CCR

We support the staff's proposal on the overall design of the CCR. It is both practical and efficient that the new framework is built on the existing PCDR with the newly proposed Catastrophe Containment (CC) Window attached for the public health disaster. We also support the amendment of the PCDR Trust Instrument on this purpose.

As staff argues, in making a determination about the occurrence of a Qualifying Public Health Disaster, it is reasonable that the Fund may draw on assessments of the health situation and outlook by national authorities and the relevant agencies such as the WHO and the World Bank as the Fund has little expertise in doing so by itself. However, it should be kept in mind that the Executive Board should be sufficiently explained about the situation when considering a request for Fund support so as to help making an informed decision. The staff's comments are welcome.

Financing of the CCR

We support the proposals to amend the PCDR Umbrella Account Instrument so as to allow its use for both of the CCR windows, and to liquidate the MDRI-I Trust to transfer back the remaining amount, and then to place it to the CCR Trust. We agree with staff that this proposal is fully consistent with the rationale of the use of the SDA resources stipulated in the Article V, Section 12(f)(ii) of the Fund's Articles of Agreement.

We agree with the amendment for the liquidation of the MDRI-II Trust. In this regard, we take note of possibility of contributing our pro rata share of the remaining balance to the CCR Trust.

On this note, as staff proposes, it should be useful to set the deadline for the receipt of the contributors' consents on the amendment of the MDRI-II Trust Instrument, and to establish a temporary account that would allow contributors to temporarily place their pro rata share until the decision has been made. Meanwhile, bearing the past cases in mind, it might also be necessary to create the temporary account literally as the interim/transitional arrangement with a specific time limit.

Mr. Çanakci, Mr. Just and Mr. Mehmedi submitted the following statement:

We welcome the proposal to enhance Fund support for low-income countries hit by public health disasters. We commend staff for the well-written paper on broadening the mandate of the Post Catastrophe Debt Relief (PCDR) by expanding the circumstances under which the Fund's poorest countries that are experiencing an epidemic of an infectious disease can receive grant assistance to pay off debt service. We support the decision and broadly agree with the proposal, and look forward to its implementation.

We concur that a mechanism should be in place to cover situations where poor member countries are hit by fast-spreading epidemics. We appreciate staff’s emphasis on the spillover character which gives a compelling justification for the Fund’s initiative. In case of a rapid spread of life-threatening infectious disease, the additional containment efforts in the initially affected country are of potentially great benefit for other countries. This positive externality provides a strong economic case for other countries and the international community to provide direct support to the affected country. Therefore, the Fund’s role, albeit already overstretched, is important.

While we concur with the proposal to transform the PCDR Trust into the Catastrophe Containment and Relief (CCR) Trust with two windows, we would have liked to see a thorough discussion of other alternatives. One of the distinctive features of Fund assistance in natural disaster situations is the speed with which it is disbursed its assistance, either through the Rapid Credit Facility (RCF) or through an augmentation of the funding already being provided through other facilities. Taking into account that the RCF has a substantial beneficial impact for epidemic-hit countries, increasing the access levels to the RCF instead of embarking on amending the terms of the PCDR could have been considered. Increasing the access levels to the RCF may also be more beneficial in cases where relief coming from lower debt flows and stocks is more limited. However, we acknowledge that, due to the design of the RCF, this option would have been difficult to implement.

The amount of grant support provided from the Catastrophe Containment (CC) Window should be set at 20 percent of the member’s quota while avoiding exceptional cases. While we acknowledge the merits of increasing the grant support under the CC Window in cases when the Fund’s debt service constitutes an exceptional burden to the country and bilateral official creditors offer similar terms, the case to increase the grant element for countries in debt distress goes beyond the spillover argument while at the same time distorts incentives and makes the mechanism more complicated. Sticking to the “20 percent” feature is warranted.

The Fund’s support through the CC Window should be part of a concerted international debt relief effort. The provision of debt relief by the Fund through grants should take place as part of a broad package of support from bilateral and multilateral donors. We trust that the Fund will have a catalytic role for other bilateral and multilateral debtors to also offer relief at least similar in terms.

Collaboration with other international organizations such as the World Bank is critical. The Fund’s work to respond to natural disasters should be done in close collaboration with other international organizations while ensuring that these containment efforts are well-aligned and complementary. Taking into account that the World Bank is working on initiatives to minimize the occurrence of future pandemics and will create a pandemic fund soon, we wonder how the Fund’s work fits into the overall international response to epidemics. We acknowledge that the Fund will seek input from other institutions more apt in determining what qualifies as a public health disaster.

Financing the new CCR Trust may prove difficult. We understand that the total resource needs of the proposed CCR (the needs for both catastrophe containment and catastrophe relief) are estimated in the order of SDR 240 million. Even assuming that all 37 contributors to the MDRI-II allocate their shares to the CCR Trust, additional bilateral contributions of some SDR 85-95 million would be required to support the Trust—entailing serious fundraising efforts. We are concerned that in case the fundraising falls short of the target, this will imply a squeeze in funding for other disasters. The staff’s comments are welcome as to the envisaged timeline by when the CCR Trust should be fully funded. Given that pandemic events occur infrequently, we wonder whether assurance by bilateral donors to replenish the CCR Trust when needed would be an option.

We note that the debt-relief commitments to the three Ebola-affected countries can be made upon effectiveness of the CCR. Can staff explain what “effectiveness of the CCR” means from a legal point of view and what the timeline is?

We would like to stress that the best response to preventing and containing pandemics is investment in basic sanitation, availability of drinking water, investment in basic health infrastructure and in human capital. We encourage staff in its surveillance of low-income and developing countries to take these issues into consideration to the extent covered by the Fund’s mandate.

Mr. Daïri and Mr. Nadali submitted the following statement:

We thank staff for an informative report, which has been prepared to facilitate continued Fund financial support to the Ebola-affected countries of West Africa and to explore new, flexible mechanisms to address the economic effects of future comparable crises. The report argues for the transformation of the Post-Catastrophe Debt Relief Trust into a Catastrophe Containment and

Relief (CCR) Trust with two windows to cover situations where the poorest and most vulnerable member countries are experiencing a qualifying public health disaster. We agree that the cost of halting the epidemic should not fall disproportionately on very poor countries and, given the potential for significant economic disruption at the regional or global level, underscore the need for expeditious provision of generous external financial support by the international community, including the Fund. We concur with staff recommendations and support the proposed decisions.

We agree that Fund should draw on assessments of the health situation and outlook made by national authorities, the WHO, the World Bank, and other relevant agencies in making a determination of the occurrence of a qualifying public health disaster. Moreover, coordination with other IFIs is needed to ensure a proper division of labor and a more effective response to the crisis.

We agree to set the grant amount provided from the CCR Trust at 20 percent of the member's quota, as well as increase the grant amount in exceptional circumstances subject to the Board's approval. As indicated, staff report in such cases should justify the provision as well as the scale of this additional support.

The proposed amendments would entail, among other things, the transfer of the remaining balance of about SDR 39 million in the MDRI-II Trust to the CCR Trust rather than back to the PRGT, as originally planned. Although this amount appears small in comparison with the SDR 1.25 billion base envelope of the PRGT and is not included in the regular PRGT self-sustainability assessments, it will now be available to a 38-country subset of 73 PRGT eligible countries. This point, as well as the criteria for selection of CCR-eligible countries, needs to be clearly spelt out when soliciting the consent of the 37 bilateral contributors to the MDRI-II Trust for the required amendment and transfer. The staff may wish to comment.

Mr. Heller and Mr. Adamek submitted the following statement:

We support the proposal to enhance Fund support for low-income countries hit by public health disasters. Such disasters require quick and concerted international support. By providing exceptional support under the new Catastrophe Containment (CC) Window, the Fund can provide an important contribution in this sense.

We would like to emphasize five points:

First, while the Fund has a role in international efforts for crisis containment, this role should remain auxiliary. Instead, targeted humanitarian aid from specialized organizations should be at the forefront of international efforts. Furthermore, debt relief by the Fund should be made available only in exceptional cases where the capacity of authorities to respond to disasters is jeopardized by significant economic disruption and balance of payment problems.

Second, the Debt Sustainability Framework should remain at the center of the discussion on debt sustainability and debt stock relief. This implies, in particular, that the DSA should continue to be the starting point for assessing the need for debt stock relief, also under the PCDR in the event of a catastrophe. In addition, any approval of debt stock relief should be consistent with the current practice under the HIPC framework, i.e. debt relief should be granted in combination with conditionality.

Third, we have strong reservations regarding the specific proposal that the Board could foresee exceptional grant support, i.e. support in excess of 20 percent of quota, for countries rated at high risk of debt distress or in debt distress. It is important to clearly separate (i) short-term measures to ease resource constraints in the case of serious health disasters from (ii) measures that have to be taken in case of underlying debt sustainability concerns. The latter should include a more comprehensive approach to put debt on a sustainable path as well as a deep review of a country's medium-term debt strategy. Moreover, the exception proposed in the paper could delay a needed sovereign debt restructuring. This would be inconsistent with the current Fund efforts to develop a comprehensive framework for timely and effective sovereign debt restructurings.

Fourth, we would welcome if staff could indicate when and how it intends to (i) approach potential donors for additional bilateral financing, and (ii) reach the envisaged level of Trust resources. We note that reaching this level will require a significant amount of bilateral financing, even though we understand that the current proposed decisions would gather enough resources for the immediate cases of the three countries hit by Ebola.

At last, we note that the circulation period for the paper, and particularly for the proposed decision, was extremely short. Regretfully, there was thus limited time for consideration of the proposal and for consultation with the authorities on this important and complex topic. Similar situations should be avoided in the future.

Mr. Catsambas, Ms. Quaglierini and Ms. Lopes submitted the following statement:

We welcome the staff papers concerning the proposals about how to enhance Fund support for low-income countries hit by public health disasters. We also appreciate the Fund's involvement in the international community efforts to help the affected countries to effectively face the Ebola outbreak.

Overall, we look favorably at the proposed decisions regarding the transformation of the Post-Catastrophe Debt Relief (PCDR) into the Catastrophe Containment and Relief Trust (CCR) and the related draft proposals. We share staff's views that the new CC Window may help address the negative spillovers deriving from public health disasters and broadly agree with the proposed strategy. In particular, we appreciate that in the letter of intent the affected country is required to ensure that the policy response to contain the disaster is appropriate and to indicate the measures that are being taken.

On one specific point, we have reservations and would appreciate further elaborations by staff.

In particular, we remain concerned about the case envisaged by staff in the last paragraph of Box 4 of the staff paper SM/15/14—"where a country has no debt outstanding to the Fund at the time the infectious disease begins to take hold." Our reservations are related to the fact that, based on the current draft proposals, staff is not required to assess whether a country hit by an epidemic disease may also concurrently qualify for a public health disaster. We think that such an assessment is needed at the time of the provision of the financial assistance program. In our view, this is necessary in order to fulfill the requirement highlighted by staff in paragraph 35 of the staff paper SM/15/14, according to which eligible debt to the CCR should exclude "the credit committed concurrently with or after the decision of qualification for CCR," i.e. for the public health disaster. We would like to be reassured that staff plans to make such an assessment to avoid that the Fund may be providing financing to a country that already qualifies for debt relief. The staff's comments are welcome. Moreover, we also note that in paragraph 3(c)(i) of the proposed Decision A, the definition of eligible debt to the CCR is not stated as clearly as in paragraph 35 indicated above, whereas we think that a specific mention about the ineligibility of concurrently provided debt is needed. The staff's comments are welcome.

Finally, we would appreciate if staff might elaborate on the key operational steps and projected timeframe for the effective implementation of the proposed decisions.

Mr. Mohan and Mr. Govil submitted the following statement:

We thank staff for the paper on a proposal to enhance the Fund's support to low-income countries affected by public health disasters. We note that this proposal has been prepared in response to the G20 leaders' call, made at their November 2014 meeting at Brisbane, to the Fund and the World Bank to explore new and flexible mechanisms to address the economic effects of future crisis comparable to the recent Ebola outbreak in West Africa.

An effective public policy response to the evolving public health disasters can play a major role in containing the damage, both within and outside the country where it began. In many types of natural disasters, most of the damage to property and lives occurs within a short span of time, and hence post-catastrophic aid is an appropriate instrument. On the other hand, where a member country is experiencing an epidemic[1] of an infectious disease, providing immediate aid, without waiting for the disaster to 'end,' is vital to strengthening efforts to reducing its intensity and containing the loss of property and lives. A greater role for the international institutions is justified here because such disasters could have major adverse spillover effects on other countries. In this context, we support additional assistance through existing instruments or appropriately designed new instruments to the affected member-countries.

The staff paper proposes to transform the existing Post-Catastrophe Debt Relief (PCDR) Trust into a new trust, to be named Catastrophe Containment and Relief (CCR) Trust, with an additional Catastrophe Containment (CC) Window, to provide assistance to contain certain public health disasters. We note a few discrepancies in the staff proposal which need to be rectified. These include:

The proposal seeks to transfer greater amounts of monetary resources to countries that are suffering from public health disasters that qualify for assistance under criteria established for this purpose. In general, the Fund's mode of assistance to member-countries has the advantage that money can be

[1] An epidemic which constitutes a significant threat to lives, economic activity, and international commerce across many countries.

quickly transferred to the program countries, as compared to the bilateral and multilateral funding provided by other agencies, which is often tied to the physical progress of the projects. Yet, for public health disasters, project funding (for providing equipment, medicines, personnel, hospitals etc.) and associated technical support may be needed more urgently than just transferring money to the concerned government's account. For example, in the present case of the three Ebola-hit countries, the total bilateral and multilateral financing related to Ebola is estimated to be around US$3 billion,[2] of which the Fund has contributed only US$130 million, which is less than 5 percent of the total. Therefore, active coordination with the other bilateral/multilateral financiers and project aid providers is critical for making the best use of available resources, and the staff proposal does not deal with this issue. Could staff state what steps are being taken to ensure such coordination?

The Fund's Rapid Credit Facility (RCF) is designed precisely for emergency funding needs of countries affected by natural disasters, including public health disasters. Under this facility, resources up to 50 percent of a country's quota can be made available in an expeditious manner (i.e. within the first year of the RCF program). Further, up to 125 percent of the quota can be made available in a cumulative fashion. The affected country does not need to negotiate elaborate conditionalities with the Fund, and its request is processed on priority.

Fifty percent of aggregate quota for the three Ebola-affected countries amounts to SDR 170 million. Until now the Fund has approved only half of this amount under the RCF/ECF facilities. Therefore, additional funding, if needed, to the three countries can be provided under the RCF/ECF facilities.

Even if larger amounts—than can be provided under the RCF—are required in some cases, it is not clear why the design of the RCF cannot be suitably amended for this purpose, or for providing a longer repayment period, or for including a higher level of grant element etc. It may be preferable to use existing facilities (with some modifications, as needed) rather than create new ones that carry elements of debt write-off. Could staff elaborate the reasons for not considering appropriate amendments to the RCF instrument for providing assistance?

Funding under the CC Window would pay for only the upcoming installments of the Fund loan(s) that have been taken earlier by a country. This

[2] Ref: Figure 1 on page 10 of Annex A

would be of no use to the countries that are otherwise eligible and need money urgently, but have no outstanding dues to the Fund. Therefore, such funding would not be evenhanded across similar countries. The staff paper suggests that eligible countries with no outstanding dues are few, and in any case, such countries could first approach the Fund for an RCF arrangement, and the initial debt service payments under this RCF could be written off under the CC Window. This process essentially amounts to modifying the RCF, with part of the repayment coming from the CC Window.

The CC funding can be used for immediate payment of loan installments which may become due only after three or four years. However, if the CC funding is provided in the initial phase of an evolving health disaster—consistent with the objective of the proposal—the disaster and its impact on the economy may well be contained soon, and there may be no need to write off the future installments that were scheduled to be paid only after a few years.

The proposal envisages that the balance of SDR 38.9 million in the MDRI-II Trust would be transferred to the CCR Trust. At present, the MDRI-II Trust instrument stipulates that the remaining balances would be transferred to Poverty Relief and Growth Trust (PRGT). In October 2014, the staff had stated that "In the event that bilateral shares of the remaining balance in the MDRI-II Trust were transferred to the PRGT, these would bolster the PRGT's self-sustained lending capacity."[3] Thus, transferring these balances to the new CCR Trust could be detrimental to bolstering the self-sustaining lending capacity of the PRGT.

Taking away the resources that the MDRI-II contributors have already pledged to the PRGT Trust to fund the creation of the new trust is essentially a trade-off between bolstering the self-sustaining lending capacity of the PRGT and creating an instrument that could provide debt-flow relief for some countries facing public health disasters. We are not sure whether diverting resources away from the PRGT is advisable given the importance of sustainability of the PRGT funding for low-income countries.

Under exceptional cases—say if the member seeking assistance is at a high risk of distress or in debt distress—the Fund assistance under the CC Window can be higher than 20 percent of the member's quota. Inclusion of such provisions brings in considerations of debt sustainability and debt waiver

[3] Paragraph 30 of "Update on the Financing of the Fund's Concessional Assistance and Debt Relief to Low-Income Member Countries" SM/14/282 dated October 3, 2014.

for low-income countries which should be deliberated upon separately, and these should preferably be not included in facilities to provide emergency financing.

A substantial part of the funding for the proposed new trust is to be raised from new bilateral contributions. The MDRI-II contributors also need to consent to diverting their outstanding contributions to the new trust (instead of allowing them to go to the PRGT, as originally provided for). Without such contributions/consent, there is little chance of success for the new trust. Could the staff state whether they have contacted any member authorities, formally or informally, who could potentially provide such resources and what has been the result of such outreach? Similarly, have any of the MDRI-II contributors been approached to find out whether they are likely to consent to diverting their outstanding contributions to the new trust?

We note that the time allowed for the circulation of the main policy paper in this matter has been reduced without justification. The supplementary paper on formal decisions to be taken was circulated on Friday, January 30, 2015 at 8:37 p.m., allowing the Directors and the authorities just one working day before gray statements on this subject are due to be issued. During the informal discussion and the question and answer session, many Directors noted—and we strongly concur—that this matter requires careful consideration of the various alternative funding facilities for providing emergency assistance for the low-income countries facing health-related disasters. The Directors and the country authorities haven't had a sufficient opportunity to consider the various implications of the staff proposal. We also note that at present there is no proposal before the Board for additional funding for the three Ebola-hit countries. Any financing needs that may arise suddenly in the near future can be expeditiously considered under the existing RCF/ECF framework. Therefore, it would not be advisable to consider this matter in the Board in a hurried manner.

Ms. Meyersson and Ms. Marcussen submitted the following statement:

We support the proposed transformation of the Post-Catastrophe Debt Relief (PCDR) Trust to the new Catastrophe Containment and Relief (CCR) Trust. There seems to be a case for providing debt service relief to the poorest and most vulnerable LICs hit by public health catastrophes with the potential to affect several countries. This would allow the Fund to assist its poorest members.

Reflecting on the process leading up to the proposed decision, we have a number of concerns. It would have been preferable for the Board to discuss a wider set of options than the one put forward in the staff paper. Although we are confident that staff's preparations have been thorough, the Board process has seemed unnecessarily rushed. The fact that the timing is being driven primarily by a process outside the governing structures of the IMF raises concerns.

Going forward, the lessons learned from the forthcoming WHO evaluation of the response to the current outbreak of the Ebola virus disease should be taken into account, in order to improve coordination and effectiveness when combating future epidemic outbreaks.

Qualification and Access

We agree that, as IMF resources for grants are very limited, qualification criteria have to be restrictive. We underline the need for close cooperation and coordination with other international agencies, especially the WHO, when deciding whether a member is facing a "qualifying event."

It seems reasonable to maintain the same list of eligible countries in the new CCR Trust as in the PCDR and we support the proposed qualification criteria for the Post-Catastrophe Relief (PCR) Window and the Catastrophe Containment (CC) Window.

We support that the assistance under the CC Window is limited to debt flow relief, in the form of grants of up to 20 percent of quotas to pay off debt service payments falling due to the Fund. We note staff's proposal in paragraph 36 of the paper, allowing the amount of grant support to exceed 20 percent in exceptional cases. The implied flexibility for the Executive Board to increase support may be useful, but should be exercised with strict caution due to the limited resources available. In general, we do not find it appropriate for grant support to exceed two years of debt service payments. It is unclear why the two-year criterion only applies to the first two exceptions. Some elaboration on the rationale for suggesting different limitation on exceptional support under the third exception compared to the first two would be welcome. Is it possible to indicate whether this would tend to imply higher or lower support for the third exception relative to the two first?

Financing

While the proposed trust needs to have sufficient resources to cover at least some potential cases, tying up scarce resources for rare events has a cost. Hence, the fundraising target for the CCR in the near future should be realistic. We take note of the magnitude proposed by staff, while at the same time recognizing that such an estimate is necessarily rough. The CCR should be replenished on a needs basis.

We support the possibility to transfer remaining funds in the PCDR Trust and MDRI-I Trust to the CCR. While remaining open to the proposal regarding the transfer of funds from MDRI-II, the required national decision making processes have not yet been initiated and may take time. The result of such processes cannot be prejudged.

Mr. Sun and Mr. Teng submitted the following statement:

We thank staff for the proposal to reform the Post-Catastrophe Debt Relief (PCDR) Trust. The transformation of the PCDR Trust into the Catastrophe Containment and Relief (CCR) Trust will further enhance the Fund's ability to support low-income countries (LICs) hit by severe natural or public health disasters. In particular, this proposal makes it possible to provide debt relief to the three Ebola-hit countries in West Africa and free up their resources for disease containment, relief, and recovery spending.

We support the proposed Decision A of amending the PCDR Trust Instrument to transform the PCDR Trust into the CCR Trust. We also support Decisions B and C of liquidating the MDRI-I Trust and amending the liquidation provision of the MDRI-II Trust to safeguard the financial viability of the newly established CCR Trust.

Due to the scarcity of the Fund's grant resources, the CCR Trust should only be available to the poorest and most vulnerable countries. The qualification criteria should be stringent, covering only exceptional cases that cost large economic losses and human lives. We agree with the proposed limit of up to 20 percent of the member's quota and with the options to increase this support beyond 20 percent of quota in exceptional cases, as specified in the report. We also agree that such debt relief should be part of a broad package of support from bilateral and multilateral donors. In this regard, close coordination with the World Bank and other international organizations would be important.

We underscore the importance of the synergistic effect of the Fund's financial support to LICs. The establishment of the CCR Trust is a remarkable step to enrich the Fund's debt relief toolkit for LICs and can complement the concessional lending facilities under the PRGT. Given that the Rapid Credit Facility (RCF) arrangement provides the most efficient financial support to LICs facing urgent balance of payments needs, we encourage staff to further explore how to better provide a broad package of financial support for LICs hit by serious disasters, when appropriate.

Measuring public health disaster is not the Fund's expertise, but there is still room to improve the details of the design. Considering the urgency of the current situation, we could go along with the proposal, but we encourage staff to explore a simpler design with flexibility. In particular, it would be desirable to establish a comprehensive and forward-looking mechanism with adequate coverage of severe major natural and public health disasters. We also believe that, more flexibility in qualifying criteria and the scope of grant is helpful. While staff proposed to review the financing and operations of the CCR Trust every five years or earlier, we prefer an early review, given that experiences and lessons from operations of the PCDR Trust are relatively limited.

Mr. Jimenez Latorre and Mr. Zuniga Villasenor submitted the following statement:

We thank staff for the preparation of the report on the Proposal to Enhance Fund Support for Low-Income Countries Hit by Public Health Disasters and for the outreach efforts in preparation for the Board meeting.

We welcome the initiative to expand the channels through which the Fund can assist its poorest and most vulnerable members and transform the Post-Catastrophe Debt Relief (PCDR) Trust into the Catastrophe Containment and Relief (CCR) Trust.

We note that the objective of this initiative is to provide grants to ease pressures on the affected countries' balance of payments and reduce their debt service burden, providing space for the authorities to use scarce resources in relief and containment efforts.

While the proposed access level to the CCR of around 20 percent of the country's IMF quota might seem low, we note that the IMF can use other instruments to provide timely and speedy financial assistance, such as the Rapid Credit Facility and the Extended Credit Facility. Indeed, as staff notes, the primary vehicle for providing Fund financial support to the country would be concessional lending under the PRGT. We would appreciate comments from staff on any assessments made regarding the need to bolster PRGT resources as a first line of defense instead of channeling the extra funds to the provision of grants through the CCR.

We note that the Fund's efforts are meant to be part of a multilateral initiative to assist countries affected by health disasters so that each agency or individual country can provide assistance under each entity's mandate and comparative advantage. We would welcome comments from staff regarding whether a coordinated international strategy is a necessary condition for the Fund to provide assistance through the CCR or if it is only an expectation of a likely multilateral response to a health pandemic.

Regarding the financing of this proposal, we would like to express a preliminary favorable view to the initiative of transferring MDRI resources conditional on definitive support from our country authorities.

Given the fast-changing nature and probable exponential consequences of health pandemics, we call on the Fund to remain as flexible as possible within its mandate to provide relief to affected countries, as was recently the case for Guinea, Liberia and Sierra Leone.

Mr. Yambaye submitted the following statement:

The ongoing Ebola epidemic has taken a huge toll on human lives in the three most affected countries (Guinea, Liberia, and Sierra Leone), adversely impacting economic activity. In addition to the enormous and tragic loss of human life, the Ebola epidemic is having devastating effects on the affected and neighboring countries in a variety of essential sectors by halting trade, hurting agriculture and scaring investors. Actions taken by country authorities to fight it continue to require considerable domestic resources. External intervention has also been critical in containing the spread of the disease, and more than a year after the breakout of this epidemic, the three countries most affected—all LICs—continue to need important resources to fight the disease. We appreciate the Fund's contribution in this fight as demonstrated by policy advice and increased support to the three countries under their ECF-supported programs or the RCF.

Whether aimed at responding to balance-of-payments or budget needs arising from such shock, significant resources are typically needed to face the impact of a catastrophic epidemic. Enhancing Fund support for LICs affected by public health disaster—as defined according to the WHO's concept of

Public Health Emergency of International Concern (PHEIC)—is warranted to ensure that its effects are contained before they turn into a wider threat to regional or global economy, given the limited capacities facing LICs and their strong vulnerabilities to such shocks. We agree that the cost of this public international "good" should be borne by all "recipients" of the "good," that is the international community, and the Fund has a role to play in this regard. Thus, while alternative options could be envisaged to address the need to provide assistance to LICs hit by public health disasters, we strongly support the proposal to enhance Fund support to those members facing such situations through concessional resources. We also look forward to the planned discussion on augmenting support under PRGT facilities.

We agree that the design of the PCDR—focusing on disasters that have occurred and are completed—does not allow assistance to countries hit by a life-threatening, fast-spreading epidemic of infectious disease with significant potential economic impact. The proposed transformation of the PCDR Trust into a Catastrophe Containment and Relief (CCR) Trust with two windows is suitable to complement PRGT facilities in addressing the needs of those LICs when they arise, and we support the proposed decision. We share the view however that the eligibility to the CCR could be a bit wider than that being proposed by staff. In addition, the proposed 20-percent-of quota limit for access to either window of the CCR seems to be on the low end, and flexibility should be allowed in exceptionally high needs caused by the catastrophe. We echo calls for additional bilateral contributions to make the Trust sustainable. Such contributions should be sought from a larger spectrum of donors than the traditional contributors.

Eligibility for the Catastrophe Containment and Relief (CCR) Trust

We wonder whether direct augmented assistance under PRGT facilities—notably the Rapid Credit Facility (RCF) which delivers support speedily—-would not have been simpler. Still, we can go along with the proposed objective of the CCR Trust as stipulated in paragraph 24 of the staff paper, i.e. provision of exceptional assistance "in the form of grants to immediately pay debt service payments falling due on eligible debt to the Fund."

Given the scarcity of resources potentially available, we note that the proposed eligibility to the CCR Trust is limited to those PRGT-eligible countries with an annual per capita income falling below the IDA operational cut-off (or below twice the cut-off for small states). Given the tight qualification criteria, we would request broadening the criterion for eligibility to the CCR Trust to include more LICs. Were the proposed eligibility be maintained, not all LICs would be eligible to the CCR Trust. Thus the title of the proposal should not be misleading and we would suggest amending it as “Proposal to Enhance Fund Support for Eligible Low-Income Countries Hit by Public Health Disasters.”

We have a strong preference for not linking the provision of debt relief under either window of the CCR Trust—whether the level of support is exceptional or not—to any broad package of assistance from other donors.

We note—and agree—that each of the two windows envisaged in the CCR Trust has a particular purpose. The PCR Window would provide assistance in the wake of catastrophic disaster and carries the same conditions and qualification criteria as specified under the existing PCDR Trust. Yet, we share the view that these qualification criteria (more than a third of the population is directly affected AND more than one quarter of the country’s productive capacity is destroyed or damage exceeds 100 percent of GDP) are overly restrictive.

Qualification and Access to the Catastrophe Containment (CC) Window

The second—and new—window (CC) aims at providing assistance to contain a qualifying public health disaster that has the capacity to spread quickly within and across countries. We welcome the notion that, like the PCR Window, the upfront grants from the Trust to pay off upcoming debt service payments to the Fund on eligible debt come as complement (not substitute) to PRGT resources delivered to the country in the wake of the qualifying epidemic. We caution against limiting PRGT access for recipient countries.

We would caution against excluding recent (non-protracted) arrears from eligible debt as epidemics of such potential impact would make debt service by a country in recent arrears vis-à-vis the Fund even more difficult and would compound the arrears. In addition, the justification for limiting eligible debt to “debts in respect of which the member has made regular debt service payments” (Footnote 16 of the staff paper) also holds for a country in recent arrears as this member would still be expected to make payments to the Fund on the upcoming service payments due. We would welcome staff’s elaboration on this issue.

Based on experience, the proposed 20-percent-of quota limit for access to the CC resources is on the low end for such disasters. We would have expected an access in the order of 30-40 percent of the member's quota as more suitable. In any case, flexibility should be allowed depending on specific circumstances. In particular, the two cases of proposed exceptional access related to the burden of the Fund debt service and to the status of high (risk of) debt distress are, in our view, compelling for a debt relief framework.

Financing and Structure of the CCR Trust

We take note of the resource needs expected to grant the debt relief that may be required for the three countries most affected by the current Ebola crisis and to provide adequate resources for future cases under the two windows. We support the proposed transfers of balances from the PCDR Trust, the MDRI-I Trust and the MDRI-II Trust. We also support the envisaged call for additional bilateral contributions to meet the expected needs and, most preferably, to place the CCR Trust on a sustainable footing to address unpredictable emergencies over the longer term. As noted above, for the sake of cost burden sharing, we favor calling on traditional and non-traditional donors alike—e.g. new emerging markets and developing countries with sizeable buffers—to contribute additional resources to the CCR Trust.

We can go along with the proposed structure of the CCR Trust—which follows the approach of the PRGT—with a General Account for both windows and two special accounts for contributions each earmarked to fund debt relief under one of the windows. We recognize that the two special accounts are justified to meet contributors' specific preferences if any.

CCR Approval Requirements and Next Steps

We note that the proposed creation of the CCR Trust will require at least four sets of actions (transforming the PCDR into CCR Trust; liquidating and transferring the MDRI-I balances to CCR Trust; amending the MDRI-II Trust to allow transfer to CCR Trust upon liquidation; and transferring bilateral contributions from the MDRI-II to CCR Trust) which entails each a given majority and/or consents of the contributors involved. For the sake of timeliness, simplicity and efficiency, we favor adopting the decisions as a package even though attaining the implied higher majority requirements could be challenging in case a number of members oppose one or more proposed decisions.

Finally, we would appreciate staff's elaboration on the expected timeframe to make the CCR Trust operational.

Ms. Plater and Mr. South submitted the following statement:

We are saddened by the serious humanitarian and economic impacts of the severe outbreak of Ebola in Guinea, Liberia and Sierra Leone. Recognizing the suffering and loss of life the outbreak has caused and the potential for it to spill over into other countries, we strongly support the coordinated efforts of the international community to contain the outbreak. In a public health emergency such as this, urgent assistance is required from bilateral donors, international institutions, non-government organizations, and the private sector. Within the context of this broad support it is important that the Fund stands ready to provide timely and meaningful assistance to its poorest and most vulnerable members.

Recognizing the potential macroeconomic impact of such exceptional public health disasters, we can support the proposal to transform the Post-Catastrophe Debt Relief (PCDR) Trust into the Catastrophe Containment and Relief (CCR) Trust with a Post-Catastrophe Relief Window and a Catastrophe Containment Window. We appreciate the efforts of staff to take into account some of the concerns previously raised, however, we consider that the list of eligible countries should be broadened so that it aligns with the Fund's other concessional facilities under the PRGT. All PRGT-eligible countries should be included. Furthermore, we can see no reason for the current proposal to exclude microstates that are most susceptible to the devastating impact of natural disasters.

In 2013, the Board took note of the particular vulnerabilities facing microstates and decided to set higher income-related thresholds for PRGT entry and graduation. As a consequence, Marshall Islands, Micronesia, and Tuvalu became eligible under the PRGT. This also ensures consistency with the approach of the World Bank to microstates. Like others in the Pacific, each of these countries is particularly exposed to devastating tsunami and cyclones and so would deeply value the protection offered by the PCDR and the proposed Post-Catastrophe Relief Window. We consider that the 2013 update of PRGT-eligible countries should have been taken into account in considering eligibility under the CCR. Furthermore, we note that other PRGT-eligible countries are also not currently included the list of CCR-eligible countries in Annex 2, including Kiribati, Lao P.D.R., Samoa and Tonga. We call for all PRGT-eligible countries to be included.

In establishing the PCDR in 2010, the Board called for a review of the trust to be completed within 5 years. There was an ideal opportunity to undertake this review alongside the development of the current proposal. In this context, we are unable to understand why staff felt there was no opportunity to reconsider the list of PCDR-eligible countries. It remains unclear to us why microstates and other countries that are eligible under the PRGT should not be similarly eligible for assistance under the current proposal. The staff's comments would be welcome.

Finally, we note that extending the scope of exceptional events covered under the PCDR creates risks to the ability of the trust fund to meet possible future calls on resources, either for Post-Catastrophe Debt Relief or Catastrophe Containment. It will be important that future funding is available in the event that such disasters occur in order to ensure the Fund is able to respond in an even-handed manner.

Mr. Snel, Mr. Clicq and Ms. De Lint submitted the following statement:

We can support exploring all possible ways to support the Fund's poorest members confronted with natural disasters. We also agree with staff that the Fund has a direct interest in supporting containment of an epidemic crisis that could become a global pandemic with substantial economic implications for a country or a region. However, we believe that an RCF and/or a new or augment of the SCF/ECF arrangement are the best tools to assist LICs affected by natural disasters. We note that the establishment of the CCR aims to provide a higher grant element than is possible through the RCF and other PRGT facilities in case specific circumstances apply.

We note that in the context of the Ebola crisis, G20 leaders urged the Fund to develop new instruments to address the economic effects of public health crises. While we can understand that the circumstances called for bold action, we also believe that the Board should be given sufficient time to reflect on design proposals for Fund facilities. It should be avoided that we create tools for specific situations that afterwards prove to have been too specific and do not help other members.

The Fund can only play a supporting role in addressing public health disasters. It should be absolutely clear that the Fund can only play a supporting role to actions undertaken by other institutions, notably the World Bank and the World Health Organization. It should be made sure that any action undertaken by the Fund is in accordance with the global approach. We expect that debt relief by the Fund under the CCR Trust can only be considered as part of a multilateral initiative to support members confronted with natural disasters.

We are somewhat uncomfortable that the proposed decision requires that the Executive Board decide if a public health disaster qualifies for support under the new instrument. We are afraid it would be difficult for the Board to make this judgment and for the staff to advise on this, especially in an early stage of the disaster. We would like to hear from staff which relevant information sources will be used and how they expect to find the right balance between a speedy response and clarity on the scope and impact of the disaster.

Overall, we can go along with the proposed decision but have strong reservations on the following points and would like further elaborations by staff.

We are concerned about the proposed exceptional cases to provide more than 20 percent of a member's quota in grant support and would prefer to leave out of the decision the exceptions not needed for the response to the Ebola outbreak. The staff's technical briefings on the proposal have been helpful but we are still worried that this framework with exceptional cases leaves too much flexibility and goes beyond the purpose of preventing spillovers. We can go along with an exception if there are strong expectations that bilateral official creditors offer similar terms, but are not convinced that we should have an exception if Fund debt service constitutes an exceptional burden or if there is high risk of debt distress or actual debt distress.

We believe that having more than one account in the CCR Trust is not efficient given the uncertainty about and infrequency of natural disasters. It raises the risks of shortage of resources for one of the windows. A broad trust fund for LICs that are confronted with natural disasters would eliminate this risk. We could agree with the transfer of the current balance of the PCDR Trust and the proposed liquidation of the MDRI-I Trust.

Mr. Oliveira Lima, Ms. Florestal and Mr. Orie submitted the following statement:

We thank the Fund's management and staff for their efforts to provide additional support to the Ebola stricken countries. Their proposal fills a gap in the Fund's existing facilities for low income countries faced with an epidemic or infectious disease that poses an important threat to human life and has significant impact on economic activity and international commerce. We note that the proposal to reform the Post Catastrophe Debt Relief (PCDR) Trust follows the G20 leaders' call at the November 2014 meeting to explore new, flexible mechanisms to address the economic effects of Ebola and future comparable crises. We stand ready to go along with the proposal given the urgency of the matter. However, we remain doubtful that a change in the PCDR is the most appropriate course of action for the Fund to enhance its support to vulnerable member countries when hit by natural disasters, as other options were not sufficiently explored in the Board paper.

We acknowledge staff's efforts to hold discussions with Board members ahead of the Board meeting. Nonetheless, for such an important issue, a longer circulation period of the Board document and particularly of the Board decisions would have been warranted. At least two important questions raised by our chair and other Executive Directors in the pre-Board briefings remain incompletely addressed. First, there is concern regarding the possibility that the Catastrophe Containment and Relief (CCR) would squeeze out resources away from other Poverty Reduction and Growth Trust (PRGT) uses. Secondly, we remain at unease about the absence of a robust contingency plan for the case that the fundraising exercise does not bring about the desired level of funding.

Containing spillovers from public health diseases is an international public good, for which a concerted effort is necessary. We welcome staff's assurances that already the World Bank Group has been consulted in mounting the CCR proposal. We expect a continuous dialogue and collaboration between the Fund staff and the World Bank, the United Nations and the World Health Organization. Nonetheless, in determining the occurrence of a Qualifying Public Health Disaster, the Fund may draw on assessments of the health situation and outlook made by national authorities, and other relevant agencies. Hence, it would be important to anticipate how the Fund would proceed when national authorities and other agencies hold diverging views on the occurrence of such disaster. Will the Fund attach higher weights on the assessment of certain institutions?

The staff document can at times—including because of its title—lead the reader to erroneously expect that all low-income countries hit by public health disasters would be eligible to access the CCR. However, access will be open only to PRGT-eligible countries, not necessarily to all LICs. The table in Annex II adds to the confusion because there is no clear explanation on the criteria that was used for its elaboration. There are only 38 countries in that table, while the list of "PRGT-eligible countries" is much longer in other Fund publications such as the October 2014 WEO. It is our understanding that any PRGT country could become eligible to the Catastrophe Containment Window of the CCR in the future since a country that does not have any debt towards the Fund today can in case of an emergency have access to the RCF or other Fund facilities and, once it has debt outstanding with the Fund, have access to the Catastrophic Containment Window. We would welcome staff's clarification of the issues raised in this paragraph.

Mr. Field and Mr. Duggan submitted the following statement:

We welcome and fully support the proposal to create the CCR Trust. We see a strong case for the Fund to provide support to countries suffering a public health disaster, and agree that the current toolkit does not support this approach.

In particular we agree with the arguments made in the paper that targeting the rapid spread of infectious disease has a positive externality beyond the humanitarian case for providing support: the benefits from early intervention extend beyond the individual country concerned and therefore benefit the membership more widely. For low income countries, which often lack well-developed public health systems, it is inappropriate that the costs for addressing such containment should fall disproportionately on the poorest. Furthermore, we note that the costs of late intervention outweigh the costs of early intervention. These arguments provide a strong case for Fund action to support LICs experiencing this type of natural catastrophe.

Finally, we agree that it is necessary to fully support the financing of the revised trust. It seems sensible to modify the MDRI II Trust to allow the transfer of funds from that facility to the CCR, and we encourage all MDRI II contributors to transfer their share to the CCR. Furthermore, we support the request for further bilateral contributions, and will look favorably on this when we receive it.

Mr. Meyer and Mr. Landbeck submitted the following statement:

We thank staff for the report and the effort of putting together—under significant time pressure—a comprehensive set of proposals to provide exceptional assistance to the poorest members to support efforts to contain an evolving public health disaster that has the potential to have catastrophic effects across many countries. The Fund is hereby responding to the call from G20 leaders on the IMF and the World Bank to support the Ebola-affected countries through a combination of concessional loans, debt relief, and grants and to explore new, flexible mechanisms to address the economic effects of future comparable crises.

Against the backdrop of the mandate given to the Fund from the international community, we support the thrust of the initiative and the transformation of the Post-Catastrophe Debt Relief (PCDR) Trust into a Catastrophe Containment and Relief (CCR) Trust. Enabling very poor countries to contain a public health disaster that could otherwise spread to other countries is desirable both from a national and international perspective and we agree that the burden should not fall disproportionately on the affected country. The involvement of the Fund in the provision of exceptional assistance is in our view in line with its mandate and justified to the extent that there is an exceptional balance of payments need as well as a risk of substantial spillovers across countries with the potential for severe disruptions to economic activity if the public health disaster is not effectively contained. In this vein, we consider the creation of the new Catastrophe Containment Window appropriate.

We agree on the need for stringent qualification criteria and strict focus of the assistance on the poorest and most vulnerable members so as to make access to the trust a rare event, given the scarcity of available resources. With a view to the limited expertise in determining what constitutes a Qualifying Public Health Disaster, we deem it important to draw on the assessment of other institutions such as the WHO, as noted by staff. We also agree with the expectation that the provision of such debt relief would be expected to occur as part of a broad package of bilateral and multilateral support.

We broadly agree with the principles guiding the disbursements of grants under the Catastrophe Containment Window. However, we are concerned about the exceptions under which grant support could exceed the limit of 20 percent of a member’s quota. Introducing cases for more favorable treatment like mentioned in paragraph 36 takes the justification for grant support beyond the core argument—namely the risk arising from possible spillovers in case a health disaster is not contained. Given that only one of the exceptional cases is relevant to the situation at hand—the need to offer higher debt relief based on the expectation of bilateral official relief on similar terms in the case of Sierra Leone—we would have preferred to keep exceptions to the rule limited and deal with the specificities of future cases going beyond the spillover argument as they arise and separately from the proposed framework for public health disasters.

Having said this, we appreciate the proposed modifications (SM/15/14, Supplement 2) to the proposals in SM/15/14. However, we would prefer further safeguards to restrict exemptions. In particular, we find the argument for providing higher grant support in cases where Fund debt service constitutes an exceptional burden (first exception) not persuasive. Therefore, we propose to establish the same procedure as with regard to the third exception: the Managing Director should consult with the Executive Board, meeting in an informal session, on the case for applying the first exception before finalizing a formal proposal for consideration by Executive Board.

We broadly support the staff's financing considerations and estimates on resource needs for the new Trust. We can also go along with the proposal to transfer the balances in the MDRI-I Trust and to amend the MDRI-II Trust in order to allow for the transfer of remaining balances into the new CCR Trust. However, we indicate that in the case of Germany any decision with budgetary implications, including possible bilateral contributions, will be subject to approval by the German parliament.

We take note that the proposal on the MDRI-II precludes the potential use of these resources to shore up financing of the PRGT as a means to ensure the self-sustainability of the Trust.

In line with comments from other Directors, including Mr. Dupont, we call for a close coordination of efforts with other IFIs, in particular in view of the World Bank's considerations on a Pandemic Emergency Facility, and look forward to further information in this regard.

Mr. Dupont, Mr. McGrath and Mr. Lessard submitted the following statement:

We consent to the proposal to transform the PCDR into the CCR Trust in response to the request of the G20. Our comments below address matters of structure, strategic positioning, and process.

On structure, we submit that the application of exceptions to the general rule of providing no more than 20 percent of quota debt service relief should be very selective. We welcome staff's efforts in the supplemental paper to clarify and ring fence when exceptions would be made.

We see merit in an exception where there is a strong expectation that bilateral creditors will offer debt relief. This is consistent with the Fund's catalytic role and should not raise costs unduly if limited, as proposed, to two years of debt flow relief.

There is also a reasonable case for an exception if a member is at a high risk of debt distress since Fund assistance should not jeopardize debt sustainability. The staff’s proposal for an informal Board meeting is welcome and for these meetings to be fruitful it will be important that timely and sufficient information is relayed to Directors in advance of the informal session so that they may engage with capitals.

The case for the third exception remains less persuasive because the Fund has other mechanisms to assist a member where external payment obligations constitute an exceptional burden. A careful examination of the country’s circumstances, including its debt sustainability and medium term growth prospects, should determine whether additional debt relief is necessary.

On strategic positioning, we offer three points:

First, we underscore that the key contribution of the Fund in helping vulnerable countries contain a potential catastrophe is fast disbursement of meaningful financial assistance; grants in the form of debt service relief are secondary and may be marginal for crisis management. The size and speed of Fund disbursements, compared to those of other bilateral and multilateral agencies, ensure timely assistance when resources of affected members are scarce and needs acute. The Fund’s mandate, toolkit, and role in the international community dictate that the overwhelming portion of its support will be via loans. Debt relief, while potentially helpful, should not overshadow the much larger financial resources the Fund is willing and able to mobilize for members. We note that for small states, in particular, debt relief in a proportion of 20 percent of quota will not be meaningful.

Second, it will be important that application of the new instrument in a public health crisis be well situated and coordinated within a broader international effort. Close coordination with other IFIs is critical to ensuring that maximum benefit is attained through limited debt relief operations by the Fund. We look forward to a better appreciation of how the Fund’s engagement may complement and contribute to the facility now being developed for pandemic responses by the World Bank.

Third, a deliberate communications strategy should accompany application of the new facility to ensure that unilateral provision of debt relief does not jeopardize the Fund’s preferred creditor status. Does staff have any indications whether other multilateral creditors are considering debt relief?

On process, recognizing the need for staff and management to move swiftly to respond to the needs of Ebola-stricken countries, and complimenting them for their responsiveness, we note that deliberations on structural changes to Fund instruments generally will best be informed by consideration of options and greater opportunity to consult with our authorities. Early engagement on a set of options would allow the Board to assess trade-offs, provide meaningful input, and engage capitals more intensely. Early engagement with capitals is particularly important where members are being requested to transfer financial resources, and potentially make additional bilateral contributions.

Mr. Hendrick and Mr. De la Barra submitted the following statement:

We appreciate staff's efforts to address the problems that may arise when a country gets hit by a natural disaster that may lead to financial stress in the case of low-income countries or small states in light of the major amount of resources that has to be deployed for reconstruction. The staff is rightly proposing amendments to the Post-Catastrophe Debt Relief Trust (PCDRT) to provide financial support for those countries affected by public health disasters, such as the recent Ebola outbreak in several African countries, in accordance with the G-20 call for the Fund and World Bank support.

The rationale behind the proposal is convincing since an epidemic or pandemic disease or what has been called by the World Health Organization as a Public Health Emergency of International Concern (PHIC) may cause a significant increase in public expenditure which could lead to a balance of payments need. Such increases in health costs should not be borne only by the country in which the disease originated because the benefits are eventually shared as disastrous spillovers would be contained. Box 3 illustrates the magnitude of the economic impact of pandemics. Beyond the proposal, the international community should be involved in dealing with PHECs on all fronts in order to impede the spillovers.

We support amending the PCDRT to create a specific window within the modified PCDRT, namely the Catastrophe Containment (CC) to expedite the debt service relief when necessary and, therefore, avoid significant economic disruption for a member country using Fund resources. We broadly support the proposed criteria to access the Catastrophe Containment (CC) Window, namely the Qualifying Public Health Disaster, although quantifying the balance of payments need that the epidemics have created for a member country may not be straightforward, particularly in countries that may be going through difficult-to-reach macroeconomic stability. The staff's comments are welcome in this regard. Assistance from the CC in terms of quota seems to be straightforward; however, an explanation of the rationale behind setting up the proposed 20 percent grant access for debt relief flow would be useful. We would also appreciate an additional explanation on the limits that a qualifying country would be subject to in case it receives grant assistance beyond the 20 percent of its quota.

The proposed sources of financing of the new CCR Trust are appropriate. Idle resources of MDRI-1 and MDRI-II would be useful for the Trust purposes and we find the proposed procedures suitable. New bilateral contributions would certainly complement the needed resources and would be welcome as they would show the involvement of advanced and emerging countries to the efforts of the affected countries in detaining the spread of a PHIC. However, we need have a better understanding of what steps would follow if the new bilateral contributions fall short of expectation considering the estimated financing needs (SDR 240 million). The staff's comments would be welcome.

Mr. Santoso, Mr. Koh and Mrs. Akbar submitted the following statement:

The latest episode of the Ebola epidemic in Western Africa shockingly and tragically reminded the international community of how a life-threatening infectious disease could spread rapidly within a country and regionally, cause significant economic and trade disruptions, and exact a heavy toll on human lives. The transmission of such diseases respects no international boundaries, and thus, it is appropriate for the international community to respond in a unified manner to contain this outbreak and help combat future crises. In this regard, we welcome and support the Fund's participation in an international effort to provide assistance to the poorest and most vulnerable members to contain such outbreaks. Against this background, we support the proposal to transform the Post-Catastrophe Debt Relief (PCDR) Trust into the Catastrophe Containment and Relief (CCR) Trust, with a Post Catastrophe Relief Window and a Catastrophe Containment Window.

Our comments on the specific proposals are below:

Amendment to the MDRI-II Trust

The staff paper noted that the proposed amendment to the MDRI-II Trust would be modeled after the 2005 transfer of the remaining balance in the PRGF Subsidy Account from the "same 37 [bilateral] contributors" to the MDRI-II Trust. However, the Public Information Notice (No. 05/164), dated 8 December 2005, on the establishment of the MDRI cited that the amendment of the PRGF Subsidy Account (PRGF SA) "will require the consent of all 43 bilateral donors." We seek staff's clarification whether all PRGF SA contributors agreed to transfer their remaining balances to the MDRI-II Trust. If not, could staff clarify whether the remaining balances were transferred back to the PRGF?

Eligibility for CCR Trust Assistance

As staff clarified during the informal briefing, the country eligibility list in Annex II does not include all PRGT-eligible countries. We note that staff has proposed that the eligibility list to remain unchanged from the PCDR list, which was drawn up five years ago. However, given that the scope and objectives of the CCR Trust are broader than the PCDR, and that this paper constitutes as a "review" of the PCDR, we join other Directors' call for staff to consider broadening the country eligibility list to all PRGT-eligible countries. Specifically, we are of the view that PRGT-eligible countries that are assessed to be at moderate to high risk of debt distress be eligible for the CCR Trust. Our detailed views are below:

Risk of Debt Distress

We agree with staff's proposal that the grants from the CCR Trust be used to pay debt service payments falling due on eligible debt to the Fund. However, we are puzzled that the current eligibility list excludes PRGT-eligible countries that are already assessed to be in moderate to high risk of debt distress. We would argue such countries would be most susceptible to a balance of payments shock arising from a catastrophic disaster or a qualifying public health disaster. It would be most appropriate for such countries to have access to the CCR Trust.

Two Windows for Two Different Purposes

We support Ms Plater and Mr South's call for the 2013 update of PRGT-eligible countries to be taken into account in considering eligibility under the CCR. This would ensure that microstates and other Pacific island countries, which are particularly vulnerable to devastating natural catastrophes, would have access to the proposed Post-Catastrophe Relief Window.

The Ebola outbreak and the 2009 SARS episode in Asia showed that countries which border a country at the source of, or affected by, the outbreak of a lethal disease are at heightened risk of contagion effects. The situation is even more acute for PRGT-eligible countries that are already at moderate to high risk of debt distress. As per the paper's description of a "qualifying public health disaster," public health disasters are not a localized event. If there was an outbreak of a lethal disease at a regional level, it would be difficult for the Fund to justify why one PRGT-eligible country qualified for the Catastrophe Containment Window, while a neighboring PRGT-eligible country with moderate to high debt distress did not qualify. We therefore urge staff to carefully review the eligibility list to ensure that no PRGT-eligible countries, particularly with moderate to high risk of debt distress, are excluded.

Financing

We can agree with the proposal to liquidate MDRI-I Trust and to transfer the remaining SDA balances in the MDRI-I Trust to the CCR Trust. On the proposal to amend the liquidation of the MDRI-II Trust, we note that consent from all MDRI-II Trust contributors are required for the amendment to be effected. This chair will notify our respective authorities of the Executive Board's decision on this matter. At this juncture, the respective authorities have not initiated the required steps needed to obtain the consents for the amendment and the transfer of funds from the MDRI-II to the CCR Trust.

Circulation Policy

While we are supportive of the staff's proposal to transform the PCDR Trust, we would have benefited from greater engagement with staff on the details of the proposals. Given the highly public announcement of the IMF's commitment towards this initiative, the Board should have been keep appraised on staff's proposals in order to inform our respective authorities. Unfortunately, there were no briefings on this issue until after the paper was circulated. While management and SEC had usefully instituted a three-week circulation period for policy paper, this paper disappointingly did even meet the two-week circulation period. We believe that any policy paper which proposes to seek the consent of bilateral contributors to support a Fund-led initiative must adhere to the three-week circulation period. We support Mr. Dupont's call for early engagement. Looking ahead, we request that management and SEC formalize this practice in the Board Compendium.

Mr. Mozhin and Ms. Atamanchuk submitted the following statement:

We thank staff for the detailed report and for organizing a helpful briefing and Q&A session to clarify the technical details of the proposal for the Directors. We welcome the initiative to expand the channels through which the Fund can help LICs hit by public health disasters and support the proposal to create the CCR Trust. This initiative significantly contributes to the international community's efforts to support countries severely hit by the Ebola outbreak. Also, we broadly agree with the principles guiding the disbursements of funds under the PCR Window and CC Window.

Russia has been participating in the international efforts to combat Ebola in Guinea, Liberia, and Sierra Leone, including by assigning about US$8 million in the 2015 federal budget to contribute to the WHO budget, UNICEF, World Bank's and UN's emergency funds for this purpose.

Regarding the financing of this proposal, we can support the proposed decision to transfer the PCDR and MDRI resources to the CCR Trust.

Mr. de Villeroché submitted the following statement:

We welcome the Fund's involvement in the fight against Ebola, alongside the authorities of Guinea, Liberia and Sierra Leone, as part of a wide international response including support from other international organizations (IOs) and bilateral contributions, in particular from France. In full accordance with its mandate, the IMF has already provided US$130 million in emergency financial assistance for countries worst hit by Ebola and stands ready to go further.

In this context, we welcome the proposal to expand the Fund's toolkit to support the most vulnerable low-income countries hit by public health disasters, which responds to the G20 specific mandate.

We thank staff for their paper and for the useful technical briefings prior to the Board meeting. The paper makes a case for completing liquidity provision instruments—for which the Fund's current toolkit is appropriate (Rapid Credit Facility, Extended Credit Facility, etc.)—with elements of grants and debt relief when a country faces a health disaster. The argument is that a grant support would allow for a fairer sharing of the financial burden linked to the epidemic containment, which benefits to the whole membership and should not weigh exclusively on the poorest members. The mechanism would complement, and not substitute, the provision of emergency liquidity.

In practice, the Post-Catastrophe Debt Relief (PCDR) Trust would be transformed into a Catastrophe Containment and Relief (CCR) Trust, allowing for the expansion of the circumstances under which the poorest members can receive grant assistance to pay off debt service to the countries hit by a severe health disaster.

At the outset, we would like to state that the provision of grants by the Fund must remain highly exceptional, and reserved to the most severe cases such as the Ebola crisis. In this context, we can go along with the proposed design of the policy and support the proposed decisions.

That being said, the proposal raises several questions.

Coordination with other IOs is key to respond timely, efficiently, and at scale to health disasters and their economic and social impacts. We would welcome more details on the reflections underway regarding potential new facilities to be adopted in the coming months by the World Bank Group, World Health Organization and others. We need to ensure that the Catastrophe Containment and Relief (CCR) Trust will fit well into the international toolbox to fight pandemics. To what extent has staff discussed the division of labor with other IOs—in a global approach—to address public health disasters?

In terms of scope, given the scarcity of potential resources, the eligibility for the CCR Trust should be limited to the poorest and most vulnerable countries, hit by extreme shocks, as proposed by staff. We agree that the qualification criteria and access parameters for the Post Catastrophe Relief (PCR) Window must be in all points similar to the one of the current PCDR. As for the new Catastrophe Containment (CC) Window, we support staff proposal for eligibility and access, while noting the large uncertainty surrounding the potential financial needs flowing from those calibrations. We note that the amount of grant support—which is set at 20 percent of quota in the general case—is subject to a number of exceptions, which might substantially modify the financing needs estimates. The staff's comments would be welcome.

We are strongly attached to the principle of equal treatment between eligible countries. Regarding future assistance in the context of the Ebola crisis, we note significant differences in the Fund's debt service schedule between the three countries (Guinea, Liberia and Sierra Leone), which would translate into differences in the grant assistance schedule, with Guinea not benefitting from a significant debt service clearance before 2017. Can staff provide the grant assistance schedule that would result from the application of the new mechanism for each of the three countries? Can staff confirm that, as opposite to the PCR Window grant assistance (paragraph 27 in the staff report), there is no time limit for the CC Window grant assistance so as all eligible countries would receive cumulated grant support of at least 20 percent of quotas?

Regarding the proposed sources of financing for the new trust, we agree with the proposal to transfer the balances in the MDRI-I Trust and to amend the MDRI-II Trust. Our authorities are ready to give their consent for the transfer of remaining balance in the MDRI-II Trust to the CCR Trust. We note that, in staff's views, the remaining balances in the CCR and the MDRI-I would be sufficient to provide assistance to Ebola countries without jeopardizing the principle of equal treatment. We would appreciate further insight about this assessment.

Finally, we would like staff to elaborate on the possible repercussions of the proposed decisions on other creditors, and to confirm that the proposed mechanism of debt service relief is fully consistent with the Fund's preferred creditor status (PCS). From our understanding, there is no de jure debt cancellation as the trust pays back the Fund for the eligible countries obligations. In practice, as the grants from the CCR Trust are directly associated to debt service obligations, eligible countries benefit however from a de facto multilateral (partial) debt relief. Did staff consider alternative schemes, such as a simple rescheduling rather than a debt service relief, implying a greater ripple-effect on other creditors (private, multilateral and bilateral) in order to respect the Fund's preferred creditor status? For the three countries severely hit by Ebola, what is the outstanding debt to other IFIs and what is the corresponding debt service schedule? Is the staff expecting that other IFIs would join the Fund in providing debt service relief?

The Chairman made the following statement:

I thank Directors for their patience with the amount of material that was submitted in the course of reviewing this proposed instrument. It has been hectic. There has been a great amount of work to review, a great amount of work produced through a joint effort by the various departments, and I am mindful of the fact that it has been both difficult and time-consuming. I am also mindful of the fact that it was long expected by the African countries hit by Ebola, and while there were many big statements made at the G20 in Brisbane and many good intentions, I hope we can be proud that the Fund is delivering on the commitment it made at the time to promptly turn words into reality and into an instrument that is subject to the Board's review.

I mentioned this project for the first time by teleconference from Brisbane, where the G20 was meeting. At that time, I mentioned the three-leg approach, which was still not well-defined. The first leg is to expand Fund lending through our concessional lending windows, following up on the US$130 million we had mobilized for the three countries. The second leg is the instrument that is under review, which would provide exceptional grant support from the Fund to be provided following reform of the Post-Catastrophe Debt Relief Trust (PCDR). The third leg is a call to international bilateral creditors, whether Paris Club members or non-Paris Club members, to provide debt relief to the three countries for a period as they fight to overcome and recover from the pandemic. At the time, we were facing a short-term emergency, but we needed to look to the long-term and raise the necessary financing for a trust that would enable the Fund to provide effectively in the event of future catastrophes, whether they be earthquakes, pandemics, or otherwise.

With regard to the first leg, we are pushing ahead with the first leg of the Brisbane strategy, with requests from each of the three countries for additional loan support via the Poverty Reduction and Growth Trust (PRGT) facilities. Those requests are ready to come to the Board in the coming weeks.

The proposal being considered is the second leg. It is the main component. It proposes substantial reforms to the PCDR to allow the Fund to provide exceptional assistance to our poorest member countries, not merely under circumstances where a massive natural disaster has occurred, as was the case in Haiti, but also in circumstances where public health disasters with potentially devastating spillover effects are unfolding, and where it is critical to mobilize resources promptly.

The risk of regional or global pandemics is one that all international agencies, including the Fund, must take seriously and be prepared for. The staff papers explain when and how we would provide exceptional assistance in the form of grants, used to immediately pay off debt service obligations, to low income member countries hit by life threatening epidemics. It also includes our assessment of the funding needs of the new Catastrophe Containment and Relief Trust (CCR). As part of the funding process, we are seeking the Board's approval for the transfer of funds from the Multilateral Debt Relief Initiative-I Trust (MDRI-I) account to the new trust, and we shall also be seeking consent from 37 countries that have contributed to the MDRI-II account for the transfer of these funds to the new trust.

From the reports I received from the meetings Directors have had with staff, but also from some of the gray statements, I have noted some Directors' concerns about the potential for excessive use of the three exceptional cases for providing Fund support in excess of the 20 percent of quota. In light of these concerns, and because I believe it is a time to come together, we envisage having an informal consultation with the Board before the use of any of these exceptions is formally proposed to the Board.

There is another leg that is not detailed and that is not the first priority during this meeting, but which I would like to call Directors' attention to. We are scraping together everything available to put into the CCR to respond with that grant element, which is a bit unusual, but necessary. However, we have to think about how to move forward, what happens when the next epidemic comes, and how much available funding we have. The third leg is that of replenishment, having new money coming from the membership in order to provide this CCR Trust with additional funding.

The Finance Department (FIN) assesses that we are in need of US$150 million to replenish and ensure that we have a facility that is sustainable. We have already received clear indications of willingness to support the fundraising exercise from an important shareholder. I hope that the announcement of this support shortly will be a catalyst for bringing the fundraising effort to closure quickly.

I shall be vigorously engaging with other G20 finance ministers in a few days, in Istanbul, as soon as next Monday, to make sure that they are aware of, and will seek to contribute to, that effort. I shall also be writing to all national authorities, non-G20 members, particularly in those advanced economies, and to the large emerging market economies, to seek their financial support. I would appeal to Directors' for their support and engagement in the fundraising effort, which is much needed.

Mr. Meyer made the following statement:

We thank the staff for the intensive engagement with the Board, including the helpful Q&A session on Friday, and the response to feedback from Directors. We support the proposal to transform the PCDR into a CCR Trust and provide grants to be used for repaying obligations to the Fund. As stated before, we see a case for the Fund's involvement in international efforts to contain public health disasters, given that spreading epidemics could have massive effects on social and economic outcomes across many countries. The spillover argument is the linchpin of the Fund's involvement, alongside other organizations such as the World Health Organization (WHO) and the World Bank.

In the preceding discussion, we stated our skepticism about the proposed exceptions to the general rule that grant support should not exceed 20 percent of a member's quota. We consider that these exceptions take the justification for grant support beyond the core spillover argument, and introduce a higher element of discretion on the appropriate size of debt relief. In this light, we appreciate the Chairman's introductory remarks that there will be an early informal consultation with the Board on all three exceptions. We fully support that proposal, and against this background, we accept that we have those exceptions.

Having this informal consultation on all three exceptions is helpful, because it is simple, clear, and it is in line with other existing procedures, for example, on the Flexible Credit Line (FCL) or high access arrangements. Because those informal consultations will make a number of chairs feel even more comfortable with the overall framework, they could also help secure bilateral support for the trust.

I would like to add two comments on financing and qualification. On financing, we reiterate our agreement to the proposals aimed at transferring resources from the MDRI-I and MDRI-II Trusts. As usual, we need to indicate that in the case of Germany, any decision with budgetary implications, including possible bilateral contributions, will be subject to approval by the German parliament.

On qualification, like others, we consider that management and the Board naturally have a lack of expertise when it comes to deciding whether a public health disaster qualifies for support under the CCR Window. In our view, this points to the need for a solid assessment by others, first and foremost from the WHO, as a yardstick for management's proposal and the Board's decision.

Ms. Meyersson made the following statement:

We have expressed our general support in our written statement, so I would like to use this opportunity to reflect on the process leading up to today's decision.

I would strongly underline that the Fund should absolutely be flexible enough to meet the needs of its membership as these needs develop. In the current case, the Fund reacted quickly to support the three Ebola-affected countries through the augmentation of Extended Credit Facility (ECF) programs and the Rapid Credit Facility (RCF). We strongly support this. With the CCR proposal, we are looking at ways to alleviate pressures with grant support for countries hit by public health disaster over a longer time horizon. The aim of the proposal seems reasonable. But as we are moving beyond our first response to the Ebola outbreak, the CCR proposal should be subject to less haste, allowing sufficient time to carefully consider the best way forward.

On this point, we fear that we may have come up a bit short. We are concerned that the process has been unduly steered by the G20 timetable. We realize that we operate in a political world, but this should not prevent the Fund from delivering a solid and sound response. We are somewhat concerned that we may be creating a new and unnecessarily complex facility in response to a rare specific need. As we have stated, tying up scarce resources for rare events has a cost. Therefore, we would have appreciated a discussion of alternative options, including more simple and targeted ways of assisting the countries severely affected by the Ebola outbreak.

Furthermore, the design of the proposed facility would have benefited from more thorough consideration. We realize that the staff has put substantial effort into this proposal. But as evidenced in the two Q&A sessions last week and the gray statements, many Board members still have unresolved questions. One aspect that has been raised by a number of chairs is the access to the Catastrophe Containment (CC) Window in exceptional cases. The proposal for different access levels in different circumstances adds complexity to the proposal. As we noted in our gray statement, we would underline that the flexibility for increasing access above 20 percent of quota should be exercised with strict caution. We support the proposal to expand the use of advanced informal consultations with the Board. That is a good idea.

It was not answered in the staff’s written responses, so we would appreciate further comments on the different limits for exceptional access in three cases, in particular why support is only limited to two years of debt service payment in some cases.

Mr. Santoso made the following statement:

I thank the staff for preparing this paper and also working with Directors to clarify some questions in the discussions since last week. I also thank the Chairman for the clarifications provided in her introduction, which helps us understand the broad agenda of this proposal.

We broadly support the Fund's initiative to participate in the international effort to explore ways to provide assistance to low-income countries that are affected by an outbreak of a highly transmittable and lethal disease that could be spread all over the world.

Nonetheless, noting that the Fund's current proposal calls for donors to redirect money from one trust into another trust with completely different mandates, it would have been appropriate for the Board to have clarity on the proposal well ahead of today's meeting, because I believe, as mentioned by Mr. Meyer, authorities need time to make decisions. Some countries have to go to their parliaments, and it would be a complicated process.

It is understandable that this topic has been discussed in the G20 meeting in Brisbane. We support the initiative; there are important issues that require further thought and elaboration. I would like to add to what has been submitted in our gray statement.

First, Directors have expressed concern on the eligibility and design aspects of the proposal, as mentioned by Mr. Sterland, Mr. Oliveira Lima, Mr. Meyer, Mr. Snel, Mr. Dupont, and Mr. Çanakci. We would like to reiterate that the scope of the trust represents a substantial expansion of the original vision.

Like Ms. Plater, we are partial to the staff's decision not to reconsider the eligibility list in the exercise. We are unconvinced by the staff's written response that microstates are expected to have a stronger capacity for containment efforts. For instance, the Pacific island countries, which include several microstates, have raised such issues with the Deputy Managing Director in his ongoing work in the region. I would like to refer to some statements in the Asia and Pacific state monitor from October 2014. The statement mentioned that there are unique problems that many small states face because of natural disasters. Natural disasters not only take a toll on island economies and their population in the short term, but also local growth prospects in the future, and burden the country with a high level of debt. I ask the staff how that will be consistent with Mr. Zhu's comments in that publication.

We would also like to hear the staff's comments on the issue we raised in our gray statement of why PRGT countries with medium to high risk of debt distress are not considered to be eligible for the CCR.

The next point I would like to raise is about financing. A few Directors, Mr. Çanakci, Mr. Heller, Mr. Hendrick, and Mr. Snel, also raised concerns about the feasibility of raising the needed financing for bilateral donors. Mr. Snel raised a valid point about aggregating the CCR into one trust account in order to maximize the inflow from bilateral donor contributions. This would reduce the need to raise sufficient resources for both windows and the CCR. We are interested in hearing the staff's comments in this regard.

My final concern is about the cooperation with the other international financial institutions, and also multilateral development banks. We support Mr. Dupont's view that application of this new instrument should be well coordinated with the international effort, and spearheaded by other international agencies like the WHO and the World Bank. Will the paper spell out some details about Fund engagement with the World Bank? We believe the staff should take a step further by engaging with multilateral development banks like the Asian Development Bank (ADB), which has its own initiative to address catastrophic risks.

Mr. Oliveira Lima made the following statement:

I thank the staff for the papers and the preparatory meetings, and for the written answers to our questions. We have issued a gray statement and expressed our readiness to go along with the proposal given the urgency of the matter, but would like to address a few points after having read Directors' gray statements and the staff's written responses.

We remain uncomfortable with the restrictions on the use of the CCR in terms of eligible countries and eligible debt. We refer to the staff's answer to question No. 8, which is linked to the concerns raised in our gray statement about the actual coverage of the CCR. A new category of countries seems to have been created in the staff report and labeled most vulnerable and poorest PRGT-eligible countries. Apparently it is only this subset of PRGT-eligible countries that will have access to the CCR. But this point is still not clear to our chair. I ask the staff to clarify the consistency of this new classification and of the table in Annex II with the proposed decisions. Where in the proposed decisions will we find support for this? It is still unclear. We also feel discomfort with the continued use of the expression "low-income countries" in the paper, which also appears in the press release. We reiterate our view that it could lead the reader to erroneously expect that all low-income countries hit by public health disasters would be eligible to access the CCR. We ask that this be corrected in the paper and the press release.

We share Mr. Mohan and Mr. Govil's concerns regarding implicit uneven treatment across similar countries. Countries that have no outstanding debts to the Fund would not have access, even if otherwise eligible and with an urgent need for money.

I agree with the quote from Mr. Mohan, "We are not sure whether diverting resources away from the PRGT is advisable given the importance of sustainability of the PRGT funding for low-income countries."

At the same time, we want to understand whether the estimated financing needs of US$240 million for the CCR are based on the 38 countries included in Annex II. We would appreciate if the staff could inform us about the additional funding that would be needed if all PRGT-eligible countries were allowed to access the CCR.

On eligible debt, we note that the staff's answer to question No. 13 states that eligible debt only covers this kind of debt because the purpose of the trust financing is to free up finances for recovery-related needs by relieving the member from debt service it otherwise would have paid to the Fund. Could the staff clarify how debt service that was about to fall due would be treated? How do we reconcile these restrictions with the last paragraph of Box 4? We are thinking about a situation where the country is close to finishing a grace period of a Fund arrangement and therefore has not yet been paying regularly.

We also support Mr. Yambaye, Mr. Haarsager, and other colleagues who have expressed their preference for not linking the provision of debt relief under the CCR to any broad package of assistance from other donors as this may slow the timing of the response. Additionally, we believe that by being a first mover, the Fund would play its signaling role.

We also share Mr. Yambaye's view that the qualification criteria are overly restrictive. More than one-third of the population has to be directly affected, and more than one-quarter of the country's productive capacity, has to be destroyed. If key economic sectors or structures are damaged, the damage would need to exceed 100 percent of GDP.

Finally, it would be important to know if there will be a guidance note for the staff for the use of the CCR and if the Fund will request pre-approval of projects that will be financed with fiscal space created by the CCR debt relief when a country has an ongoing program with the Fund.

Mr. Çanakci made the following statement:

We would also like to express our appreciation to management and the staff for tabling this proposal. At the start of this exercise, we were among those who were skeptical about how the Fund could be involved, but after the intense discussions and exchange of views, we now can see that the staff has built a well justified and strong case. The staff rightly uses spillovers as the fundamental justification, and spillovers, interconnectedness, and openness are central to the Fund's mandate. We therefore support the decisions.

We had raised some concerns on exceptional cases in our gray statement. We appreciate and welcome the proposed modifications, which address our concerns.

We share concerns expressed by several Directors that fundraising for this trust could divert potential contributions from other PRGT users, and we wonder whether it would be more efficient to have financing assurances to replenish the trust should the need arise.

Finally, I would like to reemphasize that debt relief efforts undertaken by the Fund under the CCR Trust should be part of a concerted international debt relief effort. In this regard, close coordination with the World Bank and other international organizations is critical.

Mr. Haarsager made the following statement:

I reiterate our strong support for the proposal and thank the staff for its creative response to a pressing economic and humanitarian concern. I note our support for the transfer of MDRI-II balances attributable to the United States to the CCR. In terms of the revisions to the staff proposal, we can go along with those. We do not object to an added layer of review and due diligence, although we would like to stress that this process should not hinder the Fund's flexibility in responding to extraordinary circumstances. The institution clearly has an interest in preventing debt distress or unduly raising debt servicing costs in impacted countries with already high debt burdens, so there needs to be a process for providing exceptional support where dictated by economic conditions.

We look forward to considering the use of this facility for Liberia, Guinea, and Sierra Leone as soon as practical, so I would like to ask the staff when they foresee bringing that forward. As we noted in our gray statement, although the epidemic appears to be improving in the region, the economic impact is likely to persist for a long time, so it is imperative we move forward with support for these countries as soon as we can.

Ms. Kapwepwe made the following statement:

We thank the staff for bringing this to the Board, and we appreciate the helpful information during the two meetings. We appreciate the answers to the technical questions and the Chairman's opening remarks.

It is an indication of the commitment of the Fund, international community, and bilateral donors to assist low-income countries especially during catastrophic times. With disasters of this nature that spread quickly, and considering that the initial response lagged the events, there is need for further response. This support should come expeditiously.

Speaking as a chair with two members that are affected by this, it is important for me to reemphasize the context from our countries' point of view. Even though the current Ebola crisis has begun to abate, the ripple effects in Guinea, Liberia, and Sierra Leone will be felt for some time to come. As a side issue, I thank the staff for the helpful Ebola report updates.

These already fragile economies have been made more vulnerable than before by the Ebola crisis. Since the epidemic, schools remain closed to prevent high contagion. Many households have lost food and insecurity has increased. The Ebola epidemic has already overwhelmed the already stressed institutional and medical infrastructure, reducing availability of health care services even for diseases other than Ebola. In addition, limitations on movements, border closures, sharp declines in international travel, and disruption to production in agriculture and mining have negatively impacted economic activity and growth. The economic impact of the Ebola outbreak translated into heightened inflationary pressures, depreciation of currencies, increased fiscal and balance of payments financing needs.

Because of the intensive national responses to the epidemic over the past several months, the probability and cost of spillovers is now much lower than it would have been. But even with these promising developments, there is still much to be done in the region in terms of recovery and development of strong, resilient institutions. Notwithstanding these challenges, the authorities are endeavoring to maintain the momentum of policy and reform implementation, although at the moment the revenue is expected to be weaker than anticipated, and this is exacerbated by weak commodity prices.

Therefore, while the emergency assistance of US$130 million and the augmentation of already existing facilities have been appreciated, and are crucial to the authorities' efforts to address the Ebola outbreak and its economic impact, debt relief through the CCR Window during a two-year post-catastrophic period is extremely important to allow the authorities to free up resources to continue the containment efforts, to rebuild and develop resilient institutions and systems.

Therefore, we agree with Mr. Yambaye and Mr. Haarsager and others that debt relief efforts by the Fund under the CCR should not be contingent on assistance provided by others. In addition, we believe Fund actions will be a catalyst for other institutions to take actions where necessary.

While appreciating the many complex considerations that have to be taken onboard in terms of the structure of the facility, eligibility, financing—as demonstrated by the many reactions and questions raised—this should not deter the Board from making the positive decision and moving ahead. The result of this instrument can be real, practical, and meaningful assistance to these eligible poor countries that already face huge underlying challenges.

The Fund needs to remain flexible and responsive to new and evolving challenges, while retaining a long-term outlook. For these reasons, this chair strongly supports the proposal.

Mr. Heller made the following statement:

As we have noted in our gray statement, we support the proposal to enhance Fund support for low-income countries hit by public health disasters. The case for swift and concerted international support in the event of such disasters is compelling. I would like to make two points.

First, we still have some reservations regarding the possibility for exceptional CCR support for countries at high risk of debt distress or in debt distress. We welcome the idea of consulting with the Managing Director ahead of formal Board meetings in all cases of exceptional access. Still, we have some concerns that we should not mix apples with oranges—we should separate short-term disaster-related support measures from the issues of underlying debt sustainability.

Second, we are not happy with the process that led up to today's Board meeting. One dimension, as mentioned by several chairs, is the short timeline, especially with respect to the proposed decision that we received shortly before last weekend. Another concern is similar to the one cited by Ms. Meyersson, namely, that the process was driven by governing structures outside of the IMF, in particular the G20. It is my sense that we were urged by the G20 to do something we had already announced to do.

In this context, I thought it was interesting to see that about one-third of the G20 countries had not contributed to the MDRI-II Trust, and against this background, I would hope that if we ask for bilateral contributions for the new CCR, that all G20 countries will now contribute.

Mr. Kajikawa made the following statement:

We thank the staff for the efforts to present this proposal to the Board. As we noted in our gray statement, we support the proposal to transform the PCDR into the CCR with two windows and the associated decisions. It is important for the Fund to participate in international effort to contain the Ebola epidemic in western Africa, and our support is from the financial side.

Concerning the implementation of the new framework, I would like to emphasize the importance of information sharing. As Mr. Meyer pointed out, the Fund does not have the expertise in the public health area, and the WHO or the World Bank are more relevant. Information sharing with such other international institutions is important, not only at the level of the staff, but also at the level of the Board. I would like to ask the staff to sufficiently update the Executive Board on the situation when considering a request for Fund support to help Directors make the formal decision. In that context, informal consultation will help, but in a broader sense, we would like to share the information.

Mr. South made the following statement:

I thank the staff for the update on the Ebola situation in West Africa. We welcome news that containment efforts appear to be making some headway. The outbreak is far from under control, though. The economic legacy will remain for some time. Guinea, Liberia, and Sierra Leone have clearly suffered enormously, and we strongly support the coordinated international assistance in which the Fund can play an important but supportive role.

Like other Directors, we feel that debt relief should only be provided under exceptional circumstances, and we should acknowledge that more timely and rapid financing is the key to immediate containment and recovery efforts. For this reason, we agree that the RCF should remain the primary avenue for Fund support.

We have some continuing reservations about aspects of the proposed CCR mechanism. We understand from the informal briefings that the staff has worked diligently through a range of alternative options before coming to this proposal. However, we would have welcomed some earlier engagement with the Board throughout this process.

As we mentioned in our gray statement, we regret that the scheduled five-year review of the PCDR appears to be subsumed within this process, but without any serious consideration of the eligibility criteria. The PCDR was established in 2010, and it was scheduled for review this year. However, in the informal briefing, the staff advised that they felt there was no mandate for them to revisit the design of the PCDR. We fully understand the focus of this meeting is on the current Ebola crisis and the response, but we should not lose sight of the original purpose of the PCDR and the devastating impact of climatic disasters. In particular, we are concerned about the susceptibility of microstates to natural disasters such as earthquakes and tsunami. As it stands, a number of our poorest, smallest, and most vulnerable members are not eligible for the PCDR or the proposed window of the CCR.

Like Mr. Santoso noted, we are a little disappointed with the staff’s response to our question about the ineligibility of these countries and the statement that microstates would be expected to have a stronger capacity for containment efforts. That is not consistent with the Board’s conclusion two years ago, when we agreed that the PRGT eligibility thresholds should make special provision for microstates given their lack of capacity.

Given that there has been no real review of the PCDR, it is appropriate that these matters are looked at more seriously and we should not have to wait another five years for that. At the very least, like other chairs, we believe that we should be very clear, including in the press release, that this proposal is not open and will not cover all low-income countries but only a subset of all eligible PRGT countries.

Mr. Field made the following statement:

There has been a significant amount of discussion today and in recent days about this proposal, and concerns about some of the details and the process. We should listen to Ms. Kapwepwe's intervention and not lose sight of the positive case for action.

It will deliver resources quickly and effectively to those countries in dire need of our help. The scale of the problem is not in dispute, nor is the need for an international response. The fact is that the Fund has demonstrated itself to be more effective than many other organizations at delivering resources and mobilizing support quickly to those who need help. This proposal will allow us to build on that work.

This is a good example of the Fund innovating and responding to new challenges. We have many discussions in this Board about the Fund's mandate, and the need not to move beyond the Fund's mandate. It is important that the Fund should not try to do things other organizations are better placed to do. But this proposal fits squarely within the Fund's mandate, and we should not forget that not so long ago people were questioning the relevance of this institution, and we need to innovate if we are going to stay relevant. We should fulfill our mandate, but we also need to make sure the Fund is a relevant institution and innovation is part of that.

As for the proposal itself, we support the proposal put forward by the staff. We can agree to the transfer of the MDRI money. I can confirm we are looking favorably at making a contribution in addition to the MDRI money, and we would encourage other countries to do the same.

On the proposals and the amendments put forward today, we would favor some flexibility in the arrangements. But we can go along with the modifications proposed on the basis that it would help others to make bilateral contributions.

Mr. Alogeel made the following statement:

We thank the staff for its work, outreach, and comprehensive answers. We are happy to support the proposed decisions that will allow the Fund to provide its assistance to member countries affected by public health disasters by expanding the circumstances under which exceptional assistance could be provided to low-income countries.

It is important to emphasize that the Fund has already played a leading role in providing timely financing to countries affected by the Ebola outbreak. The emergency assistance disbursed last September to the three countries was critical in helping these countries cover some of the balance of payments needs and physical needs associated with the crisis. We look forward to the Board approval in the coming weeks of another round of Fund concessional financing to the affected countries.

On the press release, we note in recent months that there was a great amount of negative coverage of the role the Fund's policy advice on financing played in reducing spending on health care and other social needs. Today's discussion should offer a good opportunity for the Fund to better communicate its role and action in this area.

Turning to the draft press release, we consider that the background section should be improved by referring to the Fund's policy advice on the importance of social spending and also to the support already provided to the three affected countries.

Finally, we take this opportunity to point out that Saudi Arabia has agreed to provide a grant of US$35 million to West African countries to help contain the Ebola outbreak.

Mr. de Villeroché made the following statement:

We thank management and the staff for the proactive stance on the fight against Ebola. It is important that the Fund continues to provide strong support to the three countries most severely affected: Guinea, Liberia, and Sierra Leone. This chair will support initiatives to help those three countries contain the epidemic and mitigate its terrible and social impacts. Like many other countries, we are also providing bilateral financial assistance of more than EUR 100 million and our support is targeted mostly to Guinea.

In this context, we support the proposal discussed today. It responds to the G20 call, it has created expectations, and like Mr. Field, we believe that to be a relevant institution, it is important for us to deliver. Taking a decision is already a matter of tradeoff, in particular on timing issues. By moving too slowly, there is a risk of losing momentum. Like many other Directors, from a technical point of view, we would have preferred to have more time to make the proposal our own, but we acknowledge that from a political point of view, now is the right time to move.

We thank the staff for the preliminary discussions we had and the answers to technical questions. We issued a gray statement, but I would like to make the following points.

First, the proposed mechanism is essentially a grant mechanism. It raises a fundamental question. Is it the Fund's role to provide grants? We do not have a full answer to this question, but we do not believe the proposal would establish a precedent for the Fund, especially as we already have a grant mechanism, through the PCDR and a concessional lending vehicle—the PRGT—which lends with a grant element

Second, the rationale seems to be strong for this new mechanism. On the one hand, the Fund's toolkit of lending instruments such as the RCF or ECF seems to be already appropriate to reduce balance of payments pressures. This is where the comparative advantage of the Fund seems to be the most obvious. On the other hand, containing and ending an epidemic has strong positive spillovers. It would be unfair that the cost would fall only on the affected countries. As a consequence, there is a case for complementing the liquidity provision with grants, and the Fund is well placed to organize this burden sharing with other institutions. We believe it would have a catalytic effect, in particular as regards bilateral and private creditors to the affected countries. The Fund should also act in good coordination with other international organizations.

Third, besides the question of principle, we have potentially a material issue. We need money to make grants, and resources are scarce. We have to calibrate carefully the needs. On the potential needs side, we want to reserve grants to the most exceptional cases. In this regard, we agree with the staff's proposal to restrict the eligibility to the most vulnerable members hit by the most severe catastrophes. We welcome the Chairman's announcement to consult the Board early on potential exceptions.

On the resources side, we also support the staff's proposal to transfer the current balance in the PCDR from the MDRI-I to the new trust. My authorities are also willing to consent to the transfer of the MDRI-II balance to the new trust. We encourage other creditors to do the same.

The question is, will it be enough? In the short run, probably yes. As the staff indicates, in the long run it will depend on the replenishment. We suggest being cautious. It will not be an easy task.

Finally, the principle of equal treatment must be satisfied among the three countries. I note that Guinea will benefit from the debt service relief much later than Liberia and Sierra Leone. It is important that all countries receive evenhanded support from this trust.

Mr. Beblawi made the following statement:

We thank the staff for its work, which responds to a call from the international community to support countries severely hit by the Ebola outbreak. This support entails expanding the circumstances under which the poorest countries can receive grant assistance to service debt. We appreciate the modification to the initial proposals circulated by the staff on Monday evening. Nevertheless, it seems that the case for exceeding the 20 percent of a member’s quota in grant support could lead to a differentiated treatment among members depending on their level of indebtedness. We would appreciate the staff’s comments on this risk.

Like Mr. Mohan and Mr. Meyer, we are concerned that the proposal on the MDRI-I and MDRI-II includes the potential use of these resources to strengthen financing of the PRGT as a means to ensure self-sustainability of the trust.

I welcome the Chairman’s proposal to consult with the Executive Board in exceptional cases.

Ms. Quaglierini made the following statement:

I am pleased with this opportunity to discuss the staff proposal on the establishment of the CCR to low-income countries hit by natural or public health disasters. The staff proposal is able to address the request made by the international community to help the affected countries face the Ebola outbreak in West Africa. In this regard, I am happy to hear from the staff that the Ebola epidemic has shown signs of containment.

As for the process implemented so far, I am fully aware that the staff has worked hard to design this proposal. I commend the staff for the outreach with Directors, which occurred during two formal occasions before the Board meeting. Having said that, I would also like to join other Directors who noted in their gray statements that a more in-depth assessment of the proposal would have benefited from a longer circulation period, to allow the Board to appropriately consider the details of the proposal, and its broader implications.

I also wish to associate myself with other Directors who asked for further possible clarifications from the staff about coordination of the Fund with other international institutions such as the WHO and the World Bank, which would be at the forefront of the fight against the spreading epidemics. In this respect, I tend to agree with Mr. Snel and Mr. Heller that although important for the provision of the swift financial assistance, the role of the Fund would likely remain supplementary with respect to other institutions.

We take note of the staff’s answer to the technical question raised in our gray statement, and overall we can support the proposal and the proposed decision.

Mr. Dupont made the following statement:

I sincerely thank Mr. Nolan for the time he has taken with Directors, either individually or as a group. We would have preferred earlier engagement on some options. But nonetheless, we are grateful that Mr. Nolan has made himself available to answer questions and provide many clarifications. We are also grateful for some of the points the Chairman raised that provide some comfort about the use of the exceptions. I would like to make a few points to supplement the gray statement, where we consented to the proposal.

First, we would underscore that as we announce this new facility and make it part of our toolkit, we should make clear that the core assistance delivered by the Fund in this and potential future similar situations is the rapid delivery of highly concessional loans. The grant in the form of debt relief, while helpful, can be seen to be at the margin of the Fund’s business, and depending on the circumstances, at the margin of the assistance that is actually needed for the affected countries to manage a crisis. I am appreciative of the responsiveness of the Fund in this situation, but we hope that over time we will be able to contain the scope of this facility, which is already complex. We also hope to resist pressures to create other facilities to address variants of this situation that will no doubt emerge in the future, so that the Fund can sustain its focus, efficiency, and effectiveness with regard to its key business.

Although I do not necessarily believe it has to be hardwired into the facility, it is reasonable to expect that the IMF would only engage in this type of exceptional debt relief as part of a larger international effort to support affected countries. This may be a matter of nuance with some other Directors. I note Ms. Kapwepwe's comment that the Fund has a catalytic role. I would suggest a catalytic role is exercised effectively so long as a reasonable amount of countries are also there. It is nice to have friends behind you, but nicer to have them with you. It is also consistent with the importance that we attach to our preferred creditor status, which is indispensable to achieving our mandate. I would like to clarify that with the support for the proposed decisions, in particular amendments to MDRI-I and MDRI-II, our authorities will require some time to determine the appropriate policy response and approval processes for other parts of the decision.

Mr. Mohan made the following statement:

I congratulate management and the staff for this swift response to an urgent emerging need for relief to the three countries afflicted with deadly Ebola disease. The need for relief was eloquently stated by Ms. Kapwepwe.

It does demonstrate to the world that the IMF has a heart in addition to its head. But I go along with Mr. Dupont and Mr. de Villeroché that we should not be seen as soft headed in the process, though they did not use those words.

The importance of action is also highlighted by an article that appeared in my inbox this morning, which holds the IMF responsible for cutting health expenditures in the past as part of a structural adjustment program in both Liberia and Sierra Leone. If those views are correct, by doing this we could also be atoning for our past sins. We are in broad support of the proposal at hand, but we are concerned like other colleagues about the process that has been followed in bringing this proposal to the Board, particularly in terms of the short time period.

The proposal is complex. We would have preferred a simpler proposal, and this is illustrated by the many questions that have been raised in our own gray statement and by others. We simply have not had enough time given the complexity of the proposal to study and appreciate its implications, both for other programs in the Fund, particularly the PRGT, but also in terms of the mission of the Fund and what it might mean in terms of a precedent. This is something Mr. Dupont mentioned.

Furthermore, we also have not had adequate time to get responses from our capitals. That would have been important for this issue.

We believe it is necessary to act on this with reasonable haste. But it is important that we do this with enthusiasm and unanimity. We wonder if the decision can be such that the initiative is approved, while some flexibility remains to address the various concerns that have been expressed today, which can be ironed out in the weeks to come. This is important and we should do it with unanimity, without any reservations.

Mr. Jimenez Latorre made the following statement:

We also thank the staff for the paper, the informal session, and written responses. It is an imaginative proposal to structure IMF involvement to support countries severely affected by the Ebola disease, and it has been made compatible with the IMF's mandate by the link between disease and financing needs, balance of payments imbalances, and spillover effects.

We also share the view of other Directors about the need to improve coordination with other international institutions that are dealing with this type of disease. We are also sensitive to the urgency and need to deliver, and to behave in a swift way.

I would like to raise a doubt we did not raise in our gray statement, namely, on the funding that is expected to come from the liquidation of the MDRI-I and MDRI-II. It is our understanding that some eligible countries have not yet received any debt relief. Our doubt is if there is any conflict between the funds transferred to this new trust and the remaining countries for debt relief.

Mr. Snel made the following statement:

I thank the staff for the enormous amount of work it has done in a short time. I know we had many technical questions but to address an important issue like this in such a short time period, it was important for us to understand what was happening. Although our chair is not completely supportive of all the elements yet, that is certainly not any fault of the staff.

We support the proposal. It is good that the Fund tries to be flexible and relevant. But the process leading to our decision has been far from perfect. Ms. Meyersson, Mr. Heller, Mr. Dupont, and others mentioned that already and I absolutely agree with them that it was not perfect. We should try not to repeat this process.

On the proposal itself, I was happy with the Chairman's proposal to hold more informal consultations before we talk about the exceptional access level. That could be helpful, so we support that.

Finally, I note Mr. Field's comments that the Fund should play at the borderline its mandate, and I agree that sometimes we have to be flexible in our thoughts on what we can do. But when it comes to public health issues, the Fund should always be in a supportive stance and not in a leading role. I hope what we are doing now could act as a catalyst, and I agree with Mr. Dupont about having friends who are not only at the same table, but behind you, but I hope that we can attract more bilateral money. That will be important to make this a more sustainable trust fund.

Mr. Diallo made the following statement:

We have issued a gray statement, in which we expressed our support for the proposed decision, and Ms. Kapwepwe has eloquently made the case for the action needed on this front given the time pressure. I do not want to elaborate on the process and the pressure we went through with these different technical sessions and exchanges. We understand that the circumstances have dictated it, but at the same time we need to learn lessons from this particular experience, especially with the lack of alternatives and the overly complicated structure proposed. But given the circumstances, we are ready to go along it, and we appreciate the work the staff has done in the engagement with different chairs to clarify and help understand.

In the same vein, we support and welcome the elements the Chairman provided at the opening of the session in terms of both the exceptional access and the three legs, which puts the framework in a better perspective.

As noted in our gray statement, we share the view that the proposed eligibility to CCR is too restrictive, and consistent with the Fund's definition of poor and vulnerable members, it should be broadened to include all PRGT members, given the vulnerability. Others have raised the issue of eligibility and we are willing to go in that direction.

The staff has issued a proposed modification to the initial proposal on exceptional cases, and we go along with those in addition to what the Chairman proposed in her opening remarks. However, we reiterate that the two exceptions based on an exceptional burden of the debt service obligations and on the risk of debt distress should be compelling for a debt relief framework.

This being said, I would like to return to the issues we initially raised during the technical discussions, and that some Directors have already touched on, linking it to the approach the Chairman presented in the opening of the session. It deals with the issue of effectiveness of the role of the Fund. This is an international response in an area where the international community was not up to the task, and we have lessons to learn. In this regard, we believe that the issue of effectiveness in this particular area is critical. If we refer to the agenda that the development community has when it comes to issues like this, we do not believe that the Fund has to play a leading role in this particular area. We can talk about the catalytic element that some alluded to, but we believe that the amount of coordination, harmonization, and coherence in this particular matter could have been much better.

What is presented does not discuss what others are doing. There is an initiative by the Bank, there are bilateral initiatives, there are regional initiatives at different levels, and to see where we fit and play a more catalytic role, it would have helped if we were presented with what others are doing, and how what we are doing is contributing to that in a way that would satisfy all parties. That is a key element we need to reflect on. We understand the pressure, but being part of the international community and having that shared agenda from the Paris agenda to what we saw recently, being part of that game, and serving low-income countries, it is important we translate our action to fit that agenda better. That is an element that needs to be kept in mind.

The other element is from emergency to dealing with other situations. Mr. Mohan alluded to some issues raised and even some criticism voiced about the Fund’s engagement with countries when it comes to issues of health and other social areas. We cannot forget about the issue of health systems when we deal with the epidemic. In our engagement in low-income countries, particularly in countries with weak health systems, the core of what we need to address is how to amend or update our program design to make sure that our engagement with these countries is not short term, it is long term. How do we work with others and design a program so the health systems are strengthened? This would probably be a good answer to what the president has been saying from the onset of the crisis, and that is something we need to spend time reflecting on.

It would be helpful if the staff could provide the Board an indication of what the Bank is doing and what other institutions are doing so we have a sense of where action is needed.

Finally, the issue of when do we deliver—what is the timeline for making funds available for Guinea, Liberia, and Sierra Leone?

Mr. Daïri made the following statement:

Like other Directors, we fully support the Fund's strong and timely action to assist countries hit by Ebola. We remember that Board decision last September was unanimous, which is extremely encouraging. While we would have preferred to have a joint gray statement by all Directors supporting the proposals, this may have been made difficult by the short circulation period of the staff paper before the Board meeting.

We support the proposed decisions and have a few comments. First, on the definition of public health disasters, we are under the impression that this definition excludes man-made disasters. We have had experiences with such disasters in the past. Bhopal is an example. The staff should expand the coverage to include such man-made disasters, which could include food and chemical poisoning, oil spills and others, as long as they have significant impact on the country or the region. The staff should either expand the definition to include these, or change the name of public health disasters to refer directly to pandemics, if this is the purpose. We should not restrict the meaning of public health disasters.

We also support Mr. Yambaye and Ms. Kapwepwe's reservations regarding linking Fund support to what other donors do or can do. Unfortunately, donors may hold specific views or positions regarding a particular member country, while Fund involvement should not be based on political grounds, but should only be driven by its role as an international institution serving all the membership.

We also support Mr. Yambaye's call for including recent arrears in debt eligibility. Our preference is for including as eligible debt any debt falling due after the catastrophe is declared, whether it is paid or not, so that in case it has been paid, it could be reimbursed.

We support the proposal to call on the international community, including the G20 countries as indicated by Mr. Heller, to contribute to replenishment of the expanded CCR in order to meet long-term needs arising from possible future catastrophes.

Mr. Sun made the following statement:

> We thank the staff for the hard work, especially in such a short time, to have the proposal ready for this discussion. This proposal provides a strong case for management, the staff, and the Board, to strike a delicate balance between principle and flexibility, but perhaps this is part of the life of this institution.
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> Considering the urgency of this issue, we support the proposed decisions. In particular, we view the staff's proposal and the treatment of exceptional cases to be acceptable. We believe having the management informally consult the Board in case of a grant element that reaches 20 percent of a member's quota should serve the purpose of such debt relief efforts, but we would also emphasize evenhandedness during such a process.
>
> Finally, we echo many Directors' call for strong and close coordination with other international organizations, the WHO in particular, to ensure the synergistic effectiveness of international support to the three countries hit by Ebola, and other low-income countries in general.

Mr. De la Barra expressed concern about including the most vulnerable low-income countries in the facility. Many low-income countries could become more vulnerable if they were hit by public health disasters.

Mr. Oliveira Lima asked about the appropriateness of referring to a specific amount to be granted to the three countries stricken by the Ebola virus, given that the purpose of the Board meeting was to agree on the CCR itself, and given that the Board had not discussed specific amounts.

The Deputy Director of the Strategy, Policy, and Review Department (Mr. Nolan), in response to questions and comments from Executive Directors, made the following statement:[4]

> It may be useful to provide some context to some of the features of the proposal, which is innovative in a number of important ways. I will explain the constraints and the mandate that the staff was given in designing these features.

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[4] Prior to the Board meeting, SEC circulated the staff's additional responses by email. For information, these are included in an annex to these minutes.

One piece of the mandate was this was not supposed to be a quick fix. It was not supposed to only deal with the Ebola outbreak. In a sense, the PCDR was an effort to deal with Haiti. The argument here was that this needed to be not a quick fix but rather looking ahead across a range of potential disasters. That has contributed to the complexity of the project because, when one looks forward and begins to identify various different possibilities, one then has to modify the design to accommodate those possibilities. I will explain the nature of the three exceptions in a moment.

There were other pieces of the mandate that warrant mention. There is a well-defined criterion for eligibility for assistance under the PCDR, which is basically that income levels are below the International Development Association (IDA) operational threshold, and twice that for small states. We took this criterion as a given in determining eligibility for the CCR and did not revisit that issue. Another decision made at the outset was that we would not revisit the main features of the PCDR (which is now one window within the CCR). A number of Directors have suggested the need for a review and that is an idea that could be taken up in due course.

There were a few “red-lines” that we did not wish to breach in the design of the trust. One was that the financing of the trust fund should be completely independent of the PRGT and not draw on PRGT resources, the objective being to ensure we did not undermine the medium- or long-term sustainability of PRGT finances. That was an important red line.

A second important red line related to the provision of grants by Fund—a significant innovation. Here, the red line was that any grants we would provide would be delivered in the form of debt relief. This is the key point. Moving from a situation where the Fund gives no grants to giving grants directly to a government budget was a Rubicon that would need a dialogue of at least six months internally and with the Board before it could be crossed, so we accepted the principle of “grants only through debt relief” as a red line.

We also took seriously Mr. Snel’s point—that we should recognize that, in dealing with public health catastrophes, the Fund is an auxiliary player, rather than the lead. We are not wandering around in suits and building hospitals; we are providing financial support, playing a auxiliary but important role.

Some Directors mentioned the issue of linkage to the G20. The linkage to the timing of the upcoming G20 meeting was not rooted in any effort to respond to a request of the G20; rather, the linkage was grounded in the fact that the meeting would be an excellent opportunity to garner financial support for the new trust fund.

Turning now to the proposal itself, I would like to make two big points. This is not a proposal to provide debt relief; it is a proposal to provide grant support. The grants end up being delivered in the form of debt relief, but that is simply a constraint that we have accepted, a technique we have for distributing the money. We are delivering grants.

Why are we delivering grants? As many have emphasized, our first line of approach is that we deliver money through the PRGT facilities, whether it be the RCF or the ECF. In many of our debates, we discuss Fund financing and its provision—but we do not discuss the grant element of Fund financing. What is happening in this facility, in a sense for the first time in our engagement with PRGT-eligible countries, is that we are increasing the grant element of Fund lending: we are providing RCF or ECF financing, while at the same time we are providing grants, with the result that the grant element of the package of support is significantly higher than ordinary PRGT lending. In the case of conventional emergency support from the Fund, the grant element of RCF financing, using the IMF/World Bank unified discount rate, is about 30 percent. In a situation where the CCR is deployed alongside RCF financing, as described in Box 4, the grant element proposed is on the order of 70 percent.

Why the grant element? Why the big subsidy? Many pointed out that the distinctive feature of the catastrophe containment window of the CCR is that it is motivated by the concern to address an externality. The arguments for humanitarian assistance are well known. What is clear, and became clearer to the entire world as the Ebola epidemic spread, there are important externalities at play. There are countries on the front line fighting the disease, while other countries obtain an important benefit from their efforts to contain the disease. The use of grants is innovative; the motivation for their use is also innovative, using grants to address externalities, to address adverse spillovers. It is those two elements that guide much of the design of the proposal.

I would like to discuss the exceptional cases that many Directors have queried. It is easier to understand the case for these exceptions if one sees them in the context of the subsidy and why we are providing the subsidy.

The first exception addresses the case where the country confronting an epidemic has a large bunching of payments to the Fund. Burundi is a possible example. Burundi is hit by an epidemic in 2018. Its debt service payments to the Fund in 2019 and 2020 will be 80 percent of quota, on the very high end. The Fund gets hammered by civil society and others when we extract debt service from countries, even when we are providing large amounts of new money. What is intended is not to write off all this debt. The first mechanism to apply, the first way to handle bunching, is through additional RCF or ECF financing to remove the bunching and push the payments further out. We felt it was important to have the flexibility in specific circumstances to use higher grant levels where warranted, as has been discussed extensively. That is where the individual merits of the case have to be brought to the Board and discussed in advance before a formal proposal is delivered. We are constructing an exception that may be useful. We can envision scenarios where it would be useful.

The second scenario is one where the Fund is seeking to solicit and encourage bilateral creditors to provide debt relief. One leg of the Brisbane proposal called on the bilateral official creditors of the countries involved to provide the three Ebola affected countries with debt service relief for two years. We felt it would be hard to justify calling for debt service relief from official creditors for two years if we were not also doing so ourselves. The value of exception No. 2 is in circumstances where the Fund can generate or catalyze a significant amount of additional debt relief, financial support, to the affected countries. This exception could be useful.

The third exception relates to the question of dealing with countries at high risk of debt distress. One must recall the purpose of the subsidy. We are dealing with poor countries, lending them money, a grant element of 30 percent, increasing that grant element to the order of 70 percent. We are trying to leave them with much less debt to the Fund than would normally be the case.

In cases of countries at high risk of debt distress, the issue of leaving them with additional debt burden at the end of the pandemic is central. It is an issue of importance for a country with lower debt distress, but it is of higher import for countries at high risk of debt distress. The proposal does not imply that, if a country is at a high risk of debt distress, it gets a higher grant element. Instead, in situations where the country is at high risk of debt distress and a case can be made for providing assistance with a higher grant element, additional grants could be part of the assistance. That is what the third exception allows.

Each exception contains a scenario or a story that is conceivable, where some flexibility would be needed. We have heard clearly the message from Directors that flexibility has to be exercised with prudence, given the scarcity of resources; and we have heard clearly the need, as the Managing Director noted earlier, for consulting with the Board informally ahead of any decision to push something forward in this area, so the decision is made in a collaborative manner.

I want to come back to the question of why we have not sought to modify either the RCF or ECF facilities. This goes back to the issue as to why we are providing grants to subsidize our financial support for a country. The Fund is not constrained, and has not been constrained, in the amount of support we provided to the three Ebola-affected countries by limits on access to the RCF or ECF. We can inject more money using these existing facilities, if warranted. This is not the constraint. The issue is not getting more money, it is providing more money on more generous terms than we normally do. It is not the volume of lending, it is the price of our lending that we focus on here.

Many Directors have stressed the importance of collaboration with the World Bank and other international organizations. We seek in our country operations to collaborate closely with the World Bank in areas such as health systems. That is clearly a prerequisite, an area in which we do not have expertise. The Bank is delivering large amounts of assistance through various projects and various forms. We could see the collaboration occurring naturally as part of the normal engagement we have with the Bank on country operations. At the same time, we consulted with Bank staff on this proposal and received comments from them. We have included an annex that describes exactly what the Bank is doing at this time. It does not describe Bank activities country by country, an issue that can be covered in country papers rather than a policy paper.

Some Directors posed questions as to whether the use of this facility is linked in some technical sense to the provision of substantial assistance from the rest of the international community. The language we used was intended to convey the point that it would be strange for the Fund to determine that there is major international health crisis in countries A, B, and C, yet no other countries or international institutions agreed with this assessment. The idea is not that there is a mechanical linkage. The expectation would be that we would not be the leaders in determining whether there is a public health crisis with international effects. The Fund would be a follower.

On the issue of microstates, and PRGT eligibility, which a number of Directors have raised, I would divide the issue into two parts. One is the issue of extending eligibility to all PRGT-eligible countries. The second is the issue of microstates.

On the first one, the reason that eligibility for the PCDR was defined more narrowly than PRGT eligibility when the PCDR was designed in 2010 was the need to effectively target scarce resources. We do not have that much money to provide grant support, we do not expect to have that much money—hence, it is targeted at the poorest countries. That is why we did not extend the eligibility criteria to cover some large countries that are PRGT eligible, such as Nigeria. The financials would not work.

On the issue of microstates, we took as a starting point the eligibility criteria of the PCDR. Some Directors have noted that we modified the PRGT eligibility criteria in 2013. This is something that perhaps we could usefully take up in a review. I agree that the review should not be in five years' time, but much sooner. That also speaks to Mr. Mohan's concern about the desire to revisit or look again at today's decision. Our suggestion in that regard, we will formalize it, would be to come back and propose a review of the CCR or CCR/PCDR—of the entire mechanism—in 2016 or 2017, when we have accumulated some experience with its use.

The Deputy Director of the Finance Department (Mr. Andrews), in response to questions and comments from Executive Directors, made the following statement:

I would like to touch on the costs of enlarging the new trust so it could cover all PRGT-eligible countries. We never thought it would be feasible to extend coverage to all PRGT-eligible countries. Doing so would bring in six or seven countries that are above the ninetieth percentile of the cost ranges that we have under the present proposal. Looking at the medians, it would at least double the cost, and that is only counting the flow relief. There would then also be the question of the stock relief, for which those countries would be potentially eligible. In sum, it would be a large change.

The Managing Director has laid out the broad approach to financing, and I would like to run through some of this and touch on points that were raised. Directors asked about the use of the MDRI, and whether those resources are really free. Yes, they are. The MDRI covered only Fund debt that was outstanding at the end of 2004. Given that all the MDRI-eligible debt has all been repaid, there is no debt still outstanding that can be covered by the MDRI. The resources remaining in the MDRI trust accounts are therefore free. We had already begun the process to terminate these accounts before this proposal was developed.

On the timing, we will shortly be writing to all of the 37 contributors to the MDRI-II Trust requesting their consent to change the instrument to allow the funds to flow to the new trust. But I wanted to reassure Directors on the timing. We will be asking for consents within a short period, possibly only a month, but in doing that, we will make clear that all contributors will have the option of their funds flowing to a temporary administered account so that upon liquidation their funds could sit in that administered account pending decision on whether the funds can flow to the new trust. I hope that addresses some of Mr. Mohan's concern on the pace, given that there is one contributor to the MDRI-II Trust in his constituency.

Additional bilateral fundraising will be needed and I would like to address of couple of issues on the modalities for such financing. We are giving bilateral contributors the option of contributing to difference accounts within the trust because we recognize from past experience that this is helpful in encouraging donors to come forward. There may be preferences to place the funds available for one window or the other. The funding from the PCDR will be in a general account and be available for both windows.

There was also a question of whether contingent commitments or assurances of future funding would be suitable. The simple answer is that the trust needs cash on hand to be able to respond in the future. If we were in a situation of relying on assurances to fund, we would not be able to move with the urgency that is needed in the case of a future emergency. If there was an Ebola-type outbreak and the Board wanted to provide relief and we did not have the grants available, we would not be able to take action. Assurances would be useful as a second line of defense after we have replenished the trust, but are not what we need at this time.

On this issue of the uniformity of treatment, the paper argues that giving debt relief to the three countries—as we would be able to do immediately—would leave a balance of just SDR 47 million in the PCDR, before the use of MDRI-II or funding from donor contributions. That amount was judged to meet the requirements of uniformity of treatment. These are all Fund resources and we need to be able to reach a judgment that this is not just a facility available for these three countries, but would deal with future cases, and would be available to all other low-income countries that are similarly placed.

The assessment we made in the paper is that this SDR 47 million would be enough to meet a limited range of cases for flow relief under both windows, and potentially also more than one country case for the containment window. It is important that it cover more than one member, given the cross-border nature of these problems. But if we did face another emergency, that would deplete those resources. We would then need to start a fundraising process. We need resources in the account it is not enough to have assurances that money will be provided. We need cash on hand to be able to move quickly.

There was a question on the cost of the proposed exceptions where additional relief could be provided. From Mr. Nolan's description, this is difficult to judge. It depends upon the circumstances, but the bottom line from our assessment is that the cost would typically not be that large. In the case of country facing a high risk of debt distress—where the objective would be to raise the grant element of the package provided to 80 percent—as Mr. Nolan indicated, if there were two disbursements under the RCF, the baseline would be about 70 percent or more grant element. The additional cost of raising the grant element to 80 percent would be low. Moreover cases of such exceptional treatment are unlikely to happen because at the moment only 8 of the 38 countries are in high risk of debt distress. We are talking about a small universe and typically small countries.

Broadly speaking, the cost of the other exceptions is not expected to be large, but there is the additional assurance that the Board would have an informal discussion beforehand.

Mr. Haarsager asked about the timeframe for bringing forward debt relief under the CCR for the three Ebola-affected countries. Since there were sufficient funds to do so, presumably the debt relief did not have to wait until the process of dissolution of the MDRI facilities was completed.

Mr. Oliveira Lima reiterated his question about whether there would be a guidance note, and whether the Fund would request pre-approval of projects that would be financed with the fiscal space created by the CCR debt relief.

The Deputy Director of the Strategy, Policy, and Review Department (Mr. Nolan), in response to further comments and questions by Executive Directors, made the additional following statement:

> In response to Mr. Haarsager's question on when the provision of the debt relief to the three countries would kick into effect, I am sure he meant to say when the grants provided in the form of debt relief would take effect.
>
> The African Department expects that Liberia and Sierra Leone will come to the Board in late February; the relevant country papers will be circulated shortly. Guinea will come to the Board in March.
>
> In case Directors are wondering whether the staff is delaying the provision of support to try and push through program conditions, it is important to stress that the three countries have stated that they are committed to sticking with their Fund-supported programs and completing the relevant reviews. This preference is what is driving the timeline: the authorities want to stick with their programs and push ahead.
>
> As regards the table in Annex II and who the countries are, the countries in that table are the countries that currently meet the criteria for eligibility for the PCDR. The role of the IDA operational threshold (twice the operational threshold for small states, being states under 1.5 million) is specified in footnote 2 or 3. Mr. Nogueira Batista in earlier comments had corrected the word PRGT, and we have eliminated that.
>
> On a guidance note, we had not thought of writing a guidance note because we view the document as being of such monumental clarity one would not be needed. In light of this discussion, we may revisit that decision.
>
> On the issue of no pre-approval of projects, we discussed at length and concluded in light of experience that seeking to link Fund support to specific expenditure items within country budgets was not an effective or efficient way to go; it would entail significant monitoring costs and deliver little in terms of results. There is no specific linkage of Fund support under the CCR to any individual projects.
>
> The following summing up was issued:
>
> Directors welcomed the opportunity to discuss how the Fund can enhance its support to member countries affected by public health disasters. They agreed that the Fund has an important role to play as part of a broad

international effort to assist affected countries, and underscored the importance of close coordination and effective collaboration with other international institutions, including the World Bank. Directors broadly supported the staff's proposals, although a number of them felt that it would have been helpful to include a discussion of other options, such as increased access under the PRGT facilities.

Directors considered and supported the transformation of the existing Post-Catastrophe Debt Relief (PCDR) Trust into a Catastrophe Containment and Relief (CCR) Trust and the underlying policy framework as set out in the staff paper. They agreed with the proposed two windows under the CCR Trust: (i) a Post-Catastrophe Relief Window, which would replicate the design and functions of the PCDR Trust; and (ii) a Catastrophe Containment Window to support countries hit by public health disasters.

Directors broadly supported the proposal that eligibility for assistance from the CCR Trust should be limited to the poorest and most vulnerable PRGT-eligible countries, consistent with the existing eligibility criteria for support from the PCDR Trust. Some Directors called for the inclusion of other PRGT-eligible members, including but not limited to microstates. In this context, a few Directors noted that references to low-income countries in the staff paper needed qualification, given that not all low-income countries hit by public health disasters would be eligible to access the CCR. Directors agreed that access to grant resources from the Catastrophe Containment Window should be limited to cases where the country is experiencing an epidemic of a life-threatening disease that has spread across several areas of the country, is causing significant economic disruption and balance of payments pressures, and has the capacity to spread, or is already spreading, rapidly within and across countries. Directors called on Fund staff to draw on assessments of the situation by relevant international agencies, especially the World Health Organization, and national authorities when conducting its analysis.

Directors supported the proposal to provide assistance via the Catastrophe Containment Window of the CCR Trust in the form of up-front grants to immediately pay off upcoming debt service payments to the Fund on eligible debt. Eligible debt would not include credit committed concurrently with, or after, qualification. Directors also agreed that the amount of grant support would be set at 20 percent of the member's quota, subject to the constraint that such support could not exceed the level of eligible Fund debt outstanding and conditional upon the availability of resources in the CCR Trust.

Directors broadly supported the proposal to allow for the possibility of providing assistance in excess of 20 percent of quota under the exceptional circumstances specified in the staff paper. A number of Directors, however, expressed reservations regarding using these exceptions, while some Directors stressed the need for flexibility in responding to public health disasters. In all exceptional cases, management intends to consult informally with the Executive Board when there is a potential case for providing grants in excess of 20 percent of quota under these exceptions, before bringing the proposal for formal Board consideration.

Directors supported the proposal to liquidate the MDRI-I Trust and to transfer all remaining balances to the General Account of the CCR Trust (through the SDA). They also agreed to amend the liquidation provision of the MDRI-II Trust Instrument to allow for the transfer of remaining balances upon its liquidation to the General Account of the CCR Trust, which would become effective upon each contributor’s consent. Some Directors expressed concern that the transfer of MDRI balances to the CCR Trust could divert potential resources away from the PRGT. Directors underscored the importance of securing additional bilateral resources to ensure adequate financing of the CCR Trust for potential future cases.

Directors looked forward to a comprehensive review of the CCR Trust five years after its establishment, or earlier if warranted.

The Executive Board took the following decisions:

Proposal to Enhance Fund Support for Low-Income Countries Hit by Public Health Disasters—Transformation of the Post-Catastrophe Debt Relief (PCDR) Trust into the Catastrophe Containment and Relief (CCR) Trust and Liquidation of the MDRI-I Trust

Part I—Transformation of the PCDR Trust

1. The name of the Trust established pursuant to Decision No. 14649-(10/64), adopted June 25, 2010, shall be changed to the Catastrophe Containment and Relief (CCR) Trust. Accordingly, Decision No. 14649-(10/64) and the title of the Attachment to that Decision shall be amended by replacing references to the “Post-Catastrophe Debt Relief Trust” (“PCDR Trust”) with “Catastrophe Containment and Relief Trust” (“CCR Trust”).

2. The Instrument to Establish the CCR Trust (“CCR Trust Instrument”), annexed to Decision No. 14649-(10/64), shall be amended to read as set forth in Attachment A to this decision.

3. The terms and conditions for the administration of the PCDR Trust Umbrella Account set forth in Attachment A to Decision No. 14650-(10/64) PCDR Umbrella Account, adopted June 25, 2010 shall be amended to read as set forth in Attachment B to this decision.

4. Except as otherwise specifically provided or where the context otherwise requires, references in other Fund decisions, instruments, agreements or documents to the Post-Catastrophe Debt Relief Trust and Post-Catastrophe Debt Relief Trust Instrument shall be understood to be, respectively, references to the “Catastrophe Containment and Relief Trust” (“CCR Trust”) and “Catastrophe Containment and Relief Trust Instrument”.

5. The review of the PCDR Trust set forth in paragraph 1 of Decision No. 14649-(10/64), adopted June 25, 2010 is no longer required. It is expected that the Fund will review the financing and operations of the CCR Trust every five years or earlier if needed.

Part II—Liquidation of the MDRI-I Trust and Transfer of the Remaining Balances to the CCR Trust

6. Pursuant to Section V, Paragraph 3 of the Instrument to Establish the Multilateral Debt Relief Initiative-I Trust (the “Trust”), annexed to Decision No. 13588-(05/99) MDRI, adopted November 23, 2005, as amended, the Fund, as Trustee of the MDRI-I Trust, decides to liquidate the MDRI-I Trust.

7. In accordance with paragraph 6 of Decision No. 13588-(05/99) MDRI, adopted November 23, 2005, effective January 5, 2006, the General Resources Account shall be reimbursed the equivalent of SDR 10,348 by the MDRI-I Trust in respect of the expenses of administering SDA resources in the MDRI-I Trust during FY 2015.

8. The SDA resources in the Trust, after discharge of all liabilities of the Trust and after the reimbursement set forth in paragraph 2 above, shall be transferred (through the Special Disbursement Account), to the General account of the Catastrophe Containment and Relief Trust established pursuant to Decision No. 14649-(10/64), as amended. (SM/15/14, Supplement 5, 02/11/15)

Decision No. 15708-(15/12), adopted
February 4, 2015

Attachments

Proposal to Enhance Fund Support for Low-Income Countries Hit by Public Health Disasters—Amendment to the MDRI-II Trust

1. The Fund, as Trustee of the Multilateral Debt Relief Initiative-II Trust (the "MDRI-II Trust") decides to amend Section V, paragraph 2 of the Instrument to establish the MDRI-II Trust, annexed to Decision No. 13588-(05/99), adopted November 23, 2005, to read as follows:

"Paragraph 2. Liquidation of the Trust

If the Trustee decides to wind up the operations of the Trust, the resources in the Account shall be used first to discharge all the liabilities of the Trust. Any amount remaining in the Account after the discharge of all the liabilities of the Trust shall be transferred to the General Account of the Catastrophe Containment and Relief Trust established pursuant to Decision No. 14649-(10/64), as amended, except that, at the request of a contributor, its pro rata share in any unused resources shall be transferred to the Poverty Reduction and Growth Trust for use in any current or future subsidy operations authorized for that Trust or shall be distributed to the contributor."

2. The amendment set forth in paragraph 1 of this decision shall become effective when all contributors to the MDRI-II Trust have consented to the amendment. (SM/15/14, Supplement 5, 02/11/15)

Decision No. 15709-(15/12), adopted
February 4, 2015

APPROVAL: September 15, 2015

JIANHAI LIN
Secretary

Annex

The staff circulated the following written answers, in response to technical and factual questions from Executive Directors, prior to the Executive Board meeting:

General Issues

1. ***We would appreciate an update from staff on recent Ebola developments in the affected countries, and beyond, where warranted.***

- The situation in Guinea, Liberia, and Sierra Leone has been improving markedly since late 2014 but remains fragile and the outbreak is not yet under control. The number of new confirmed Ebola cases declined to about 850 in January (from about 2,000 in December). Most of the new cases (650) occurred in Sierra Leone. The UN continues to warn that hotspots persist across the three countries, and under-reporting remains an issue. According to the WHO, less than half of the cases in Liberia and Guinea during the past week came from known Ebola contacts, which suggest that hidden cases are contributing to the outbreaks. The total number of cases as of January 28, 2015 was over 22 thousand with 8,810 reported deaths. All other countries in the region and overseas that had Ebola cases have now been declared Ebola-free (e.g. Mali, most recently).

- The outbreak has inflicted considerable economic damage on the three countries, prompting a rapid decline in activity and generating significant financing gaps. With implementation capacity overwhelmed and financing constrained, important public investment projects are being delayed, with implications for medium-term growth prospects. In parallel, the three countries are also being adversely affected by the drop in world prices for iron ore. Initial estimates suggest that there will be large 2015 fiscal financing gaps in all three countries (Liberia 3¾ percent of GDP; Guinea 3½ percent of GDP; Sierra Leone 1½ percent of GDP).]

2. ***The G20 Leaders' Brisbane Statement on Ebola refers to the IMF initiative to make available a further US$300 million through a combination of concessional loans, debt relief and grants. We would appreciate staff's elaboration on the actual/envisaged breakdown figures between these three components. In addition, we would also like to ask staff's clarification as to whether this CCR debt relief, which is in the form of up-front grants, should be legally/conventionally categorized as either debt relief or grants.***

- The breakdown of the proposed additional financial assistance to country affected by Ebola (Guinea, Liberia and Sierra Leone) is as follows: (i) subject to Board approval, in coming weeks, another round of Fund's concessional financing to the tune of US$156 million either through augmentation of existing programs and /or requests for support under RCF (when program is assessed to be off track); and additional Fund's assistance under a new trust that allows for containment of public health disaster in the amount of about US$100 million; and (iii) bilateral debt relief, totaling about US$65 million.

- The availability of resources under the CCR Window (grant) allows a qualified country to meet its debt obligation to the Fund (mode of delivery). This is in line with the approach under the PCDR, where grants from the PCDR Trust are used to pay off debt service falling due on eligible debt to the Fund during a two-year post-catastrophe recovery period.

3. We would welcome comments from staff regarding whether a coordinated international strategy is a necessary condition for the Fund to provide assistance through the CCR or if it is only an expectation of a likely multilateral response to a health pandemic.

- Accessing the Catastrophe Containment Window would require meeting the conditions stipulated in the policy paper, including a finding that a member is experiencing an exceptional balance of payments emanating from a Qualifying Public Health Disaster. A coordinated international strategy would not be a necessary condition but there would be a strong expectation of a multilateral response to a health pandemic. However, the existence of an international response under the CCW is only a formal requirement for the second exception to the 20 percent access limit described in paragraph 36 of EBS/15/ 14—that is, in circumstances where there is an international effort to provide debt service flow relief to the country to ease near-term balance of payments pressures.

Design—Eligibility, Access and Qualification Criteria

4. Could staff elaborate the reasons for not considering appropriate amendments to the RCF instrument for providing assistance?

- We considered raising the annual RCF access limit from 50 percent to 75 percent to address the financing needs of Ebola-affected countries. We cannot raise the limit for a few members as this would not provide for uniformity of treatment. Therefore the limit would need to be raised for all PRGT-eligible members. It is important to note that while RCF facilities help members address urgent BOP needs, this approach would lead to a weakening of safeguards (no safeguard assessment and no ex-post conditionality) to the extent that it skewed demand for assistance from the SCF/ECF toward the RCF by reducing the difference in access limits. Moreover, we have adequate room in the current cases to provide concessional financing under the RCF or by augmentation of existing programs, so the benefit of raising the annual access ceilings in these cases would be limited. Finally, the burden of containing a health disaster with international spillovers should not fall disproportionately on the poorest countries. Merely changing access limits under existing facilities would not have achieved the desirable increase in the grant element of the Fund's financial assistance.

5. ***We would appreciate comments from staff on any assessments made regarding the need to bolster PRGT resources as a first line of defense instead of channeling the extra funds to the provision of grants through the CCR.***

- The Fund's response to public health disasters or other natural disasters would continue to rely in the first instance on use of existing PRGT lending facilities. The Fund's policies allows countries with an on-track Fund arrangement to request an augmentation of that arrangement, whereas countries without such an on-track arrangement can receive assistance through the RCF. The experience of the recent Ebola-afflicted countries demonstrates that these mechanisms are effective in quickly providing needed resources. The augmentations under existing arrangements and RCF drawings have remained well within the PRGT's annual commitment capacity under the self-sustained framework. The provision of grants for debt relief complements these emergency disbursements by freeing resources that would otherwise be devoted to debt service.

6. ***We are somewhat uncomfortable that the proposed decision requires that the Executive Board decide if a public health disaster qualifies for support under the new instrument. We would like to hear from staff which relevant information sources will be used and how they expect to find the right balance between a speedy response and clarity on the scope and impact of the disaster.***

- Relevant information sources on the extent of a public health disaster would include national authorities, the World Health Organization, the World Bank, the European Centre for Disease Prevention and Control and other international and regional institutions.

- To provide the balance between a speedy response and clarity on the scope and impact of the disaster, strict criteria for the definition of a Qualifying Public Health Disaster are proposed. To assess the economic disruption of a public health disaster, staff will estimate the cumulative loss of real GDP, the cumulative loss of revenue and increase of expenditures. Only if these estimates breach the proposed thresholds, would the determination of a qualifying public health disaster proceed.

7. ***In determining the occurrence of a Qualifying Public Health Disaster, the Fund may draw on assessments of the health situation and outlook made by national authorities, and other relevant agencies. Hence, it would be important to anticipate how the Fund would proceed when national authorities and other agencies hold diverging views on the occurrence of such disaster. Will the Fund attach higher weights on the assessment of certain institutions?***

- It is not proposed to attach weights to assessments of the relevant institutions and agencies. In the event of the diverging views on the occurrence of such disaster, it would be important to look at whether a life-threatening epidemic has a sustained presence, has spread across several areas of the country and has a potential to spread/has been spreading to other countries. The staff's macroeconomic projections will be used to assess the magnitude of the disaster.

8. ***It is our understanding that any PRGT country could become eligible to the Catastrophe Containment Window of the CCR in the future since a country that does not have any debt towards the Fund today can in case of an emergency have access to the RCF or other Fund facilities and, once it has debt outstanding with the Fund, have access to the Catastrophic Containment Window. We would welcome staff's clarification of the issues raised in this paragraph.***

- At first, we would like to clarify that not any PRGT-eligible country could be eligible for assistance from the CCR Trust. Only the most vulnerable and poorest PRGT-eligible countries would have access to the CCR Trust's funds. Currently, only 38 out 73 PRGT-eligible countries would be eligible for the CCR Trust.

- It is envisaged that the first emergency assistance would come from the RCF when a country with no debt to the Fund is hit by a disaster. And only after the disaster would be assessed to satisfy criteria for a Qualifying Public Health Disaster, an access to the CCR Trust could be considered.

9. ***It remains unclear to us why microstates and other countries that are eligible under the PRGT should not be similarly eligible for assistance under the current proposal. The staff's comments would be welcome.***

- The staff believes it is appropriate to target the Fund's exceptional assistance to the poorest and most vulnerable countries. Very poor countries usually have weak health systems and have limited capacity to implement containment efforts successfully. Moreover, a higher cut-off for small states is consistent with their treatment under the existing PCDR and takes account of their special vulnerability to natural disasters. In contrast, staff does not see a special case to be made for microstates who would normally be expected to have a stronger capacity for containment efforts.

10. ***We would be interested in additional background on how the amount of grant support, i.e. 20 percent of the member's quota, was decided.***

- The main factors taken into account were: (i) debt service falling due, the grant element of Fund's assistance to members in response to a public health disaster, and having sufficient funds available to provide this support to other eligible members. First, the average amount of the upcoming debt service payments in the next two years across the CCR-eligible countries is about 21 percent of quota. Second, grant element of the Fund's proposed financial assistance to the Ebola-affected countries was considered in comparison with previous debt relief operations. Finally, the size of current and prospective assistance needs from the CCR Trust was compared to the estimated amount of available financial resources.

11. ***We remain concerned about the case envisaged by staff in the last paragraph of Box 4 of the staff paper SM/15/14. We would like to be reassured that staff plans to make such an assessment to avoid that the Fund may be providing financing to a country that already qualifies for debt relief. The staff's comments are welcome.***

- Under the framework a member can request the use of Fund resources and, at a later date, request debt relief. However, at the time of requesting debt relief the member would then need to satisfy the relevant qualification criteria, including those with respect to its macroeconomic policies.

12. ***The typology of natural disasters includes natural and public health events. We wonder if large displacements of populations or inflows of refugees that affect economic activity and/or public health in a meaningful manner can be included in this classification.***

- Inclusion of numbers of displaced population and of refugees has been considered when determining qualification criteria under the CC Window. However, concerns over the availability of such data and the link between such data and the balance of payments need precluded from its inclusion to the eligibility criteria.

13. ***We would caution against excluding recent (non-protracted) arrears from eligible debt as epidemics of such potential impact would make debt service by a country in recent arrears vis-à-vis the Fund even more difficult and would compound the arrears. In addition, the justification for limiting eligible debt to "debts in respect of which the member has made regular debt service payments" (Footnote 16 of the staff paper) also holds for a country in recent arrears as this member would still be expected to make payments to the Fund on the upcoming service payments due. We would welcome staff's elaboration on this issue.***

- Limiting eligible debt under the containment window, to debt on which regular scheduled payments are being made follows the same provision under the post-catastrophe window.

- Under the provisions of the PCDR, which are being retained under the post-catastrophe window of the proposed CCR Trust, eligible debt only covers debt on which regular payments were made before the catastrophic disaster because the purpose of the Trust financing is to free up resources for recovery related needs by relieving the member from debt service it would otherwise have paid to the Fund. As explained in the decision supporting the PCDR Trust, in the case of arrears, as members by definition are not paying to the Fund their due obligations in full, there is no clear and objective basis for determining how much debt service (if any) such members would make after a disaster, and thus how much debt service relief would be needed to achieve the purpose of the Trust.

14. ***It is reasonable that the Fund may draw on assessments of the health situation and outlook by national authorities and the relevant agencies such as the WHO and the***

World Bank as the Fund has little expertise in doing so by itself. However, it should be kept in mind that the Executive Board should be sufficiently briefed about the situation when considering a request for Fund support so as to help making an informed decision. The staff's comments are welcome.

- Area department informal country matters briefings would be envisaged as one means of updating the Board on an evolving public health disaster, its estimated economic impact, and potential for spillovers to other countries.

Financing the CCR Trust

15. It is proposed that the sources of initial financing for the proposed CCR include use of the balances in the PCDR Trust and the MDRI Trusts. We are concerned that this fund-raising could compete with securing the financing for the PRGT, which will be used by member countries on a much more regular basis than the proposed CCR. The staff's comments are welcome.

- As indicated in staff's most recent Update on the Financing of the Fund's Concessional Assistance and Debt Relief to Low-Income Member Countries (SM/14/282), following the two distributions of reserves associated with windfall gold profits, the financial resources needed for the self-sustained PRGT with an average annual lending capacity of approximately SDR 1¼ billion have been secured. This assessment is contingent on the receipt of all pledged contributions. The average annual lending capacity is broadly in line with the range of staff estimates for demand for concessional resources. On this basis, staff consider that adequate financing for the PRGT exists at present without the need for additional fund-raising. In this context, staff also notes that the estimate of the self-sustained capacity of the PRGT of SDR1.25 billion does not include the unused resources in the MDRI Trusts. Moreover, if there resources were to be transferred to the PRGT they would raise its self-sustained capacity by less than one percent. The Fund's strategy for responding to future disasters will continue to rely on emergency assistance through PRGT lending facilities, complemented by the focused provision of debt relief through the CCR Trust.

16. We would appreciate if the staff could reaffirm their commitment from the informal Board briefing that the Fund's provision of debt relief under the CCR will not be contingent on assistance provided by other partners.

- The provision of additional debt relief under the second exception is contingent on comparable treatment from other creditors.

17. The staff's comments are welcome as to the envisaged timeline by when the CCR Trust should be fully funded. Given that pandemic events occur infrequently, we wonder whether assurance by bilateral donors to replenish the CCR Trust when needed would be an option.

- Following decisions on the transformation of the PCDR and liquidation of the MDRI-I Trust, it is expected that the new CCR Trust becomes fully operational to immediately assist the three Ebola stricken countries. However, to put the Trust on a sound financial basis for future assistance in case of public health or natural disasters, additional financial support from our membership (on the order of US$150 million) will be necessary. Therefore, the Managing Director will be sending letters to member countries asking for additional financing support following the board meeting. Indications would be expected to be firmed up by the time of the 2015 Spring Meetings.

Approval and Next Steps

18. We seek staff's clarification whether all PRGF SA contributors agreed to transfer their remaining balances to the MDRI-II Trust. If not, could staff clarify whether the remaining balances were transferred back to the PRGF?

- All 43 PRGF subsidy contributors consented to the amendment of the PRGF Trust Instrument to allow for the transfer of resources from the PRGF subsidy account to the MDRI-II Trust, providing the unanimous consent required for the amendment to come into effect in January 2006. However, six contributors requested that the balance of their contribution remain in the (renamed) PRGF-ESF subsidy account. As a result, there are currently 37 contributors to the MDRI-II Trust.