INVESTMENT LENDING REFORM: MODERNIZING AND CONSOLIDATING OPERATIONAL POLICIES AND PROCEDURES

Operations Policy and Country Services

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ABBREVIATIONS AND ACRONYMS

APL	Adaptable program loan
BP	Bank Procedure
CAS	Country Assistance Strategy
CODE	Committee on Development Effectiveness
DL	Disbursement letter
DO	Development objective
DPL	Development policy loan
ERL	Economic recovery loan
ERR	Economic rate of return
FIL	Financial intermediary loan
FM	Financial management
GEF	Global Environment Facility
IAD	Internal Audit Department
IDA	International Development Association
IEG	Independent Evaluation Group
IFC	International Finance Corporation
IL	Investment lending
ISDS	Integrated Safeguards Data Sheet
ISP	Implementation Support Plan
ISR	Implementation Status and Results Report
IT	Information technology
LIL	Learning and innovation loan
MOP	Memorandum of the President
MP	Montreal Protocol (on Substances that Deplete the Ozone Layer)
NPV	Net present value
OMS	Operational Manual Statement
OP	Operational Policy
OpMemo	Operational Memorandum
ORAF	Operational Risk Assessment Framework
PAD	Project Appraisal Document
PCN	Project Concept Note
PID	Project Information Document
PPA	Project Preparation Advance
PPF	Project Preparation Facility
SECPO	Corporate Secretary, Policy Operations Unit
SIL	Specific investment loan
SIM	Sector investment and maintenance loan
TAL	Technical assistance loan
TTL	Task team leader

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INVESTMENT LENDING REFORM: MODERNIZING AND CONSOLIDATING OPERATIONAL POLICIES AND PROCEDURES

EXECUTIVE SUMMARY

1. The work to modernize and consolidate the World Bank's investment lending (IL) policies and procedures, though conceived under the IL reform initiative, is a key step in moving from a process culture to a results culture. The consolidation is one of the pillars that facilitates the Bank's broader modernization agenda—an agenda that involves modernizing the institution to simplify its services and processes and to strengthen the focus on institutional performance, results, openness, and accountability of its services and processes.

2. ***IL Reform Process.*** Investment lending is essentially the Bank's original financing instrument and remains its most-used form of financial support to client countries. It has been modified over the years but not explicitly considered for overall modernization until the launch of IL reform in 2009. In planning for IL reform, Bank Management proposed an initial phase focused on five key elements: (a) a risk-based approach, (b) enhanced implementation support, (c) a rationalized menu of financing options, (d) a better enabling environment, and (e) policy reform.[1] With the first four elements substantially in place, Management is now addressing the "policy reform" element—that is, rationalizing the statements of policy and procedure governing investment lending. This paper presents the results of that work and proposes a small number of important and urgent policy changes for Board consideration.

3. ***Responding to an Identified Need.*** In recent years, reviews by the Independent Evaluation Group (IEG) and the IDA14 Internal Controls Review[2] formally note what most Bank staff already knew: the maze of 35 policies that apply to IL, with their gaps, overlaps, inconsistencies, and sheer volume, affects the efficiency and effectiveness of clients and Bank staff in IL delivery. The IDA Internal Controls Review, in particular, identified this maze as a source of significant operational risk. This was consistent with feedback from staff, who asked for the simplification of the overall framework governing the instrument.

4. ***A Step in a Broader Policy and Procedure Reform Effort.*** This modernization and consolidation is a first step in a wider policy and procedure reform. Responding to a recommendation from the Internal Audit Department,[3] the World Bank Group is developing a group-wide policy and procedure framework, modernizing the design, processing, adoption, and changing of policies and procedures covering administrative, human resource, and operational policies. Under that umbrella, the Bank will update its entire Operational Manual to make it an accessible and well-organized compilation of policies and procedures that is user-friendly and facilitates the focus on substance.[4] The preparation of this paper has been informed by the wider work on the policy and procedure framework.

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1 *Investment Lending Reform—Concept Note* (SecM2009-0026), January 29, 2009.

2 *Review of IDA Internal Controls: An Evaluation of Management's Assessment and the IAD Review*, Independent Evaluation Group, World Bank, April 2009.

3 *Audit of the World Bank Group Framework for Policies and Procedures* (AC2012-0011), February 10, 2012.

4 *The Bank's Operational Policy Manual: Issues and Prospects for Reform - Approach Paper* (CODE2011-0024), April 1, 2011.

5. ***Purpose of the Exercise.*** The exercise pulls together in one policy and one procedure statement content now scattered across 19 separate Operational Policy (OP) statements, 18 Bank Procedure (BP) statements, and 9 Operational Memoranda (OpMemos). The consolidation of these statements into the new OP/BP 10.00, *Investment Project Financing*, eliminates overlaps, more precisely delineates between policy content, non-policy (but still binding) content, and guidance; rationalizes inconsistencies; addresses gaps; and provides the basis for a clearer decision-making and accountability framework. It is the final action item to complete Management's response to the IDA Internal Controls Review by providing users with a much more coherent, understandable, and easy-to-use articulation of the Bank's IL policies and procedures. It also, as discussed with Executive Directors in 2009,[5] meets one of the original goals of IL reform—clarifying and consolidating the extensive IL menu with a single IL instrument that builds in the flexibility to respond to clients' diverse development and financing needs. In addition, it supports the newly-adopted framework for accountability and efficiency of decision-making, as it is written to be consistent with that framework.

6. ***Parameters of the Consolidation.*** This consolidation does not include the Bank's policies on procurement or safeguards—although they are still integral to IL operations—because they are being reviewed separately. Additional to and consistent with the approach paper discussed by the Board's Committee on Development Effectiveness (CODE) on guarantee reform in October 2011,[6] an option is being considered as a follow-up step to the IL policy and procedure consolidation to incorporate relevant project-based guarantee elements into OP 10.00. This would mirror the proposed integration of relevant policy-based guarantee elements into OP 8.60 on development policy financing. Consistent with this policy and procedure consolidation, work is underway to significantly streamline IL documents and on quality assurance reforms to support front-line teams, focusing on implementation and results.

7. ***Feedback from Consultations***. The draft paper discussed by CODE was revised based on CODE recommendations, notably removing unclear language and ambiguities; clarifying the centrality of poverty and gender policy; the importance of economic analysis; and flexibility in dealing with situations of fragility; and further elaborating on the change proposed for additional financing.

8. Internal and external consultations were held on the revised draft. Feedback highlighted broad support for consolidation and modernization. Many welcomed the special considerations in situations of fragility. At the same time, concerns were raised regarding leaving too much to the interpretation of staff on the one hand and a danger of inadvertently imposing new unproductive requirements and reducing needed flexibility on the other hand.

9. ***Policy Changes.*** For the most part this work entails revising the policy and procedures *statements* but not the policy *content*. That said, Management identifies areas where it believes adjustments to policy would make sense. Section III covers these changes in detail.

10. **Request for Approval**. Management requests the Executive Directors' approval to the proposed policy changes:

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[5] *Investment Lending Reform—Concept Note*, (SecM2009-0026), January 29, 2009.

[6] *Modernizing the World Bank's Operational Policy on Guarantees: Approach Paper* (CODE2-11-0053), October 11, 2011.

- extending the options for additional flexibility currently available under OP 8.00 for countries faced with natural or man-made disasters and conflict to countries affected by fragility or specific vulnerabilities, including for small states;

- revising and updating the policy on the economic analysis of IL operations;

- revising the approval procedures for a series of IL projects that represent part of a programmatic engagement over time with client(s);

- dropping the three-year limit for additional financing;

- retaining the requirement of annual audits but adding more flexibility to their timing to better take into account country conditions and to allow for the use of country systems when appropriate; and

- increasing the current Project Preparation Advance limits of US$3 million in normal circumstances to US$6 million, and from US$5 million, currently just for crises and emergencies, to US$10 million for countries faced with natural or man-made disasters, conflict, fragility or specific vulnerabilities, including for small states.

11. ***Reclassification.*** In addition to the specific policy changes described above, the consolidation process identifies elements of existing OP statements that, taking into account the OP/BP definitions and distinctions, should be classified as Bank procedure and included in BP statements or moved to internal processing steps or guidance. Management requests that the Executive Directors approve such proposed reclassification of OP statements.

12. ***Next steps.*** If the policy changes above are approved, Management will issue the new OP and BP as well as make the necessary changes to other OPs and BPs that are listed in paragraph 33 of the paper. Management will also take the actions necessary for these reforms' smooth introduction, including guidance, training, and outreach. While it is not expected that the exercise will raise any additional policy issues, given the magnitude of the effort, if such inadvertently omitted policy issues are identified, Management will consult with the Board accordingly.

INVESTMENT LENDING REFORM: MODERNIZING AND CONSOLIDATING OPERATIONAL POLICIES AND PROCEDURES

I. INTRODUCTION

1. A clear investment lending (IL) policy framework that is easy to understand and implement is key for World Bank modernization to succeed. During the past decades, the Bank's IL policies have not kept pace with the changes in the portfolio, and new needs were often met in an ad hoc manner. The result is that today the Bank has a policy architecture that is wordy, cluttered, not well organized, and often confusing. Bank modernization is aimed at helping clients with effective development solutions in an increasingly complex world and a growing diversity of client needs.[1] For investment lending to contribute what it can and should in supporting effective development solutions across diverse client needs requires policy modernization and consolidation.

2. ***Reform Context.*** The IL consolidation, therefore, should be seen as part of that broader reform agenda—an agenda that involves modernizing the institution through new, streamlined, and consolidated policies and clearer accountability and decision-making processes. The efforts on major modernization initiatives are complementary. For instance, the newly-introduced framework for efficient decision-making with accountability specifies protocols for the assignment of responsibility, accountability, and authority and clearly defines staff roles in decision-making—a key component in risk management. The consolidated Bank procedure statement discussed in this paper is written to be fully compatible with that framework. Other elements of reform, not covered in this paper, are also designed to enhance the performance of IL operations: these other areas include specifically work on operational quality and reviews of procurement and social and environmental safeguard policies and procedures, as well as guarantee policy.

3. ***IL Reform.*** As the oldest and still the main instrument in Bank support for clients, investment lending has naturally been at the center of Bank business modernization. A special effort to reform investment lending and respond to findings from the earlier IDA Controls Review started in 2009. Bank Management outlined an IL reform program that was based on five elements: (a) implementing a risk-based approach for investment lending; (b) enhancing implementation support; (c) consolidating and rationalizing the menu of financing options; (d) providing a better enabling environment, including an enhanced information technology (IT) system for investment lending; and (e) modernizing the IL policy framework, consolidating the policy, embedding these IL reforms, and taking advantage of the enhanced enabling environment. The next phases of investment lending modernization will focus on procurement and environmental and social safeguards.

4. ***Feedback from Discussions at the Committee on Development Effectiveness (CODE).*** Management has had two discussions with Executive Directors at CODE on investment lending

[1] See *Update on the Bank's Business Modernization: Results, Openness, and Accountability Spring 2012* (DC2012-0005), April 10, 2012.

policy modernization. The first, in April 2010, was a discussion of the approach paper[2] that set out the background work and rationale for the consolidation and modernization of IL policy. A companion paper on the Bank's Operational Manual[3] was discussed at the same time. CODE supported the efforts aimed at the Bank's business modernization and the approach to IL policy that is reflected in this policy paper. The second discussion, in June 2012, was on the earlier draft of this policy paper.[4] The committee's report from the June meeting[5] notes that "The committee broadly supported the overall direction of the Investment Lending (IL) policy consolidation effort, the six major policy changes proposed, and management moving forward with external and further internal consultations. The committee also appreciated IL reform's link to the Modernization Agenda and its focus on performance, results, openness, accountability and simplification. The committee also noted that the proposed changes to the operational policies would make the Bank better-aligned with other multilateral and regional development banks." The report also observes that "Members voiced support for the expansion of the scope of OP 8.00 [Rapid Response to Crises and Emergencies] to also apply to situations of fragility, noting in particular that this added flexibility would be important for conflict-affected and small states." Members underscored the importance of economic analysis and that the work on poverty and gender should apply to all Bank instruments. CODE asked for a number of revisions to reflect comments and clarify issues in advance of consultation. That was revised accordingly.

5. ***Feedback from Consultations.*** The revised draft paper was posted on June 11, 2012, followed by a consultation period from June 11 to September 14. A multi-prong approach was adopted where field based offices played an important role in the outreach; special events and the web provided an important platform for the consultations. Special effort was made to reach key constituencies to inform those interested about the process. To this end, Country Directors forwarded a package of materials to client countries and face-to-face consultations were carried out on demand. Meetings were held with a number of multilateral development banks and civil society organizations (CSOs). A summary of consultations is provided in Annex A to this paper. Overall, the feedback was positive and supportive and many wondered what took us so long to carry out this exercise. They noted the value of the flexibility provided by the special considerations in cases of fragility. Several noted the importance of working with multilateral development banks and other donors to ensure to the extent possible an alignment that would help reduce unnecessary engagement costs for clients. Some feedback providers wanted more clarity that the policy covers investment projects financed through trust funds and asked if fee-based services (for which the Bank is reimbursed for its work) should come under the policy in the future. Most emphasized the need for coordination with clients and guidance and training for staff in rolling out the policy. On the other hand, a few expressed concern that in separating policy from guidance certain project preparation and implementation aspects, notably economic analysis, could be left too much to the interpretation of staff. Some noted the importance of the

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2 *Investment Lending (IL) Policy Reform: Fixing the Policy Maze, Approach Paper* (CODE2011-0025), April 1, 2011.

3 *The Bank's Operational Policy Manual: Issues and Prospects for Reform – Approach Paper* (CODE2011-0024), April 1, 2011.

4 *Investment Lending Reform: Modernizing and Consolidating Operational Policies and Procedures* (CODE2012-0025), May 22, 2012.

5 *Report to the Board from the Committee on Development Effectiveness—Investment Lending Reform: Modernizing and Consolidating Operational Policies and Procedures, Meeting of June 6, 2012* (CODE/GS2012-0017).

Bank to be able to act flexibly in various country contexts and expressed concern that the consolidation might reduce that flexibility. Lastly, questions were raised regarding the separation of the procurement and safeguard policy reviews from this consolidation process; commentators sought and received assurance that it would not affect the scope of those exercises.

6. ***Organization of the Paper.*** Following this introduction, Section II outlines parameters of the policy and procedure consolidation and modernization. In the process of consolidation, a few policy issues arose where Management finds that policy changes would be beneficial, and Section III sets those out for Board consideration. Section IV summarizes some of the risks and challenges associated with the introduction of the new policy and procedure framework. Section V reviews the proposed next steps and includes the request for approval of the policy changes. Annex A summarizes the feedback from consultations. Draft OP and BP 10.00 are attached as Annexes B and C, respectively. Annex D gives an overview of the disposition of existing OPs and BPs in the consolidation process. Annex E-G provides details on the disposition of existing OPs, BPs, and Operational Memoranda.

II. PARAMETERS OF THE CONSOLIDATION

7. The IL policy and procedure consolidation is the result of analytical work over several years.[6] One of the most important pieces of analysis was the extensive and detailed IDA Internal Controls Review, an unprecedented undertaking for a multilateral institution. (The IDA review examines internal controls applicable to both IDA and IBRD.) In 2009, the summary document from the review found that "with some important qualifications, IDA's internal controls framework operates to a high standard overall." It highlighted operational policy as a matter for further work. It recommended—with support from Bank Management, IEG, and Executive Directors—a shift from a narrowly prescriptive to a principles-based policy framework.[7] This along with simple, clear language, ease of access, elimination of duplication, and separation of policy from guidance were key elements in the approach that governed the preparation of the IL OP as well as Management's goal to reform the entire Operational Manual (see Box 1). It builds on the same logic used in developing OP/BP 8.60, *Development Policy Lending*, and OP/BP 9.00, *Program-for-Results Financing*. The 2011 approach paper for Operational Manual reform (which was welcomed by CODE) sets out the following operational architecture:[8]

- OPs should be relatively short, focused statements of overall goals, results, and core driving principles, providing high-level direction for decisions and actions to achieve the Bank's development mandate.

- BPs should summarize the procedures that Bank staff *must* follow to achieve specific institutional goals and fulfill policy requirements.

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6 See the investment lending reform and investment lending policy reform approach papers cited above.

7 *Review of IDA Internal Controls: An Evaluation of Management's Assessment and the IAD Review*, Independent Evaluation Group, World Bank, April 2009.

8 *The Bank's Operational Policy Manual: Issues and Prospects for Reform, Approach Paper* (CODE2011-0024), April 1, 2011.

- Footnotes to OPs and BPs should generally be limited to references and not used for critical policy instructions.

- In addition to the OPs and BPs, which make up the Operational Manual, internal processing steps describe the various internal roles and accountabilities at the decision points set out in the BPs. These include, for instance, instructions to staff on internal clearance requirements, or instructions on how and where to submit an operation to the Board for approval. In the past, some of these internal steps with no operational content have been embedded in OPs and, more often, in BPs. Grouping into a separate classification allows the OPs and BPs to be coherent and more to the point, and provides a clearer framework of accountability and decision-making. The processing steps are progressively being linked electronically to the web-based project processing portal, hence contributing to a user-friendly "seamless" platform for project processing.

The OP statements reflect policy content approved by the Executive Directors. Bank Management approved the BP statements and issued processing steps and guidance set out for internal use. Box 1 highlights work that has begun recently on a wider reform of the Bank Group policy framework and policy-making process. Management expects to present the initial assessment to Board Committees (Audit/CODE) before the end of the calendar year. At that stage, Management will take stock of the implications of this exercise regarding next steps. However, the substantive content and organization of the proposed IL policy and procedure is unlikely to be affected, as the preparation of this paper and the associated draft OP 10.00 have been coordinated with the wider work on accountability and decision-making reforms and informed by early work on the policy and procedure framework.

Box 1: World Bank Group Policy, Procedure, and Process Modernization Efforts Ongoing

Efforts to modernize and consolidate the operational policy framework for IL are related to the following ongoing efforts under way as part of the World Bank modernization agenda. These include:

Modernizing the Overall Framework for Policies and Procedures.[a] Responding to findings from and audit by the Internal Audit Department, the World Bank Group is developing a protocol for the preparation and design, processing, adoption, and changing of policies and procedures. The protocol will affect administrative, human resource, and operational policies. The initial design proposal is expected to go to the Audit Committee and CODE in late 2012. Since the work on IL policy is a two-stage process (pending results of consultations on procurement and safeguards and discussions on guarantees), the second stage will benefit from this Bankwide initiative. In general, this work is not likely to affect IL policy content, but it could lead to changes in its form and presentation.

Accountability and Decision-making. As part of the Bank's ongoing institutional reforms, a new accountability and decision-making framework has been developed and launched.[b] The IL policy and procedure consolidation has proceeded in parallel with the development of the new framework. Thus the draft BP 10.00 incorporates the language of that framework and is aligned with its decision points, simplified and straightforward processing steps, and the roles of the actors at each point in the IL process. Once OP/BP 10.00 is finalized and the new processing steps are in place, IL will have a clear accountability framework around processing steps that will allow for more efficient decision-making and enhance the ability to take measured risks.

Reforming the Operational Manual. Under the umbrella of modernizing the overall framework for policies and procedures, the Bank will update its entire Operational Manual to make it easier to access and interpret by staff, clients, and the public, to eliminate duplicative or obsolete sections, and to distinguish clearly the mandatory rules from advisory guidance. The update does not aim to change the substance of the Bank's operational policies but to make it easier to implement them effectively.

The proposal to consolidate multiple OPs and BPs that govern IL into a single policy and procedure statement is one of the keystones of the Operational Manual reform, and is fully in line with the guiding principles endorsed by CODE:

- Streamlining the overall architecture of the Operational Manual and organizing it around the Bank's main instruments and services;
- Clarifying and rationalizing the hierarchy of rules to focus OPs more sharply on core operational goals and principles; establishing more clearly that the BPs are mandatory Bankwide; imposing a better order on the non-mandatory guidelines and good practice materials; and
- Placing the OM on a more flexible and accessible web-based platform.

Consolidating the IL-related OP and BP statements offers a good testing ground for the principles of the overall Operational Manual reform.

[a] See *Audit of the World Bank Group Framework for Policies and Procedures* (AC2012-0011), February 10, 2012.
[b] *Update on the Bank's Business Modernization: Results, Openness, and Accountability Spring 2012* (DC2-12-0005), April 11, 2012.
[c] *The Bank's Operational Policy Manual: Issues and Prospects for Reform* (CODE2011-0024), April 1, 2011.

8. The draft OP and BP 10.00 consolidate 19 current IL-related OPs and 18 IL-related BPs. Specifically, the content from the following statements is proposed to be a part of the new OP/BP 10.00[9]:

[9] For more detailed information on the disposition of the OP and BPs listed here see the annexes.

Identification/Preparation/Appraisal/Board Presentation
OP / BP 6.00, *Bank Financing*
OP / BP 8.10, *Project Preparation Facility*
OP / BP 10.00, *Investment Lending: Identification to Board Presentation*
OP / BP 10.04, *Economic Evaluation of Investment Lending*
OP / BP 13.00, *Signing of Legal Documents and Effectiveness of Loans and Credits*
Supervision (Implementation Support)
OP / BP 13.05, *Project Supervision*
OP / BP 13.20, *Additional Financing for Investment Lending*
OP / BP 13.25, *Use of Project Cost Savings*
OP / BP 13.40, *Suspension of Disbursements*
Completion and Evaluation
OP / BP 13.30, *Closing Dates*
OP / BP 13.50, *Cancellations*
OP / BP 13.55, *Implementation Completion Reporting*
OP 13.60 *Monitoring and Evaluation**
Fiduciary
OP / BP 10.02, *Financial Management*
OP / BP 12.00, *Disbursement*
Specific IL Subinstruments
OP / BP 8.00, *Rapid Response to Crises and Emergencies**
OP / BP 8.30, *Financial Intermediary Lending*
OP / BP 8.40, *Technical Assistance**
Other
OP / BP 14.40, *Trust Funds**

*Contains non-IL components that would be separated and maintained in the Operational Manual

In addition, the IL content of 9 Operational Memoranda (OpMemos) is incorporated into the draft OP and BP statements. OpMemos are interim instructions issued from time to time by Management with the understanding that once the OpMemos are incorporated into revisions of the pertinent OPs/BPs, they will be retired. See Annexes E-G.

9. ***Poverty and Gender.*** Supporting poverty alleviation is central to all of the Bank's work. And addressing gender disparities and inequalities that are barriers to development and poverty reduction and assisting member countries in formulating and implementing their gender and development goals are part of Bank policy. These two high-priority areas are cross-cutting and span all aspects of country support programs. OP 1.00 is the Bank's operational policy statement on poverty. OP/BP 4.20 are the Bank's gender policy and Bank procedure statements. These two policies are not changed or affected by this exercise. In addition, there is extensive guidance on poverty and gender analysis and on the operational use of the information from that analysis. Hence, those policies are not instrument-specific and are applicable across all Bank instruments.

10. ***Enhanced Implementation Support.*** The new OP and BP 10.00 statements also incorporate the rebalancing of efforts from preparation to implementation support. This rebalancing reflects the Bank's evolution from its role of "supervising" (basically checking on) adherence to prescribed rules to a more collaborative role in which the client is a genuine partner in finding solutions to problems during implementation. Underpinning the Bank's

implementation support is the link to risks and results. As now formulated (from earlier IL reform), risk assessment and management is a dynamic process that begins with preparation and continues during implementation. The new risk-based approach refocuses the attention of teams and Management on addressing risks that arise during implementation and may impact the achievement of the development objectives. The revised project reporting serves as a tool not only for clients, task teams, and Management, but also since it is now disclosed as part of the access to information reform, for all stakeholders who can now monitor project progress. A new initiative on quality assurance and monitoring has also been launched, increasing Management's attention to implementation issues and strengthening the tools available for task teams as they provide implementation support to client countries.

11. ***Exclusions.*** The new OP/BP 10.00 does not incorporate the 10 IL safeguard OPs/BPs, the procurement OP/BP, or a few other OPs/BPs relevant for investment lending because further analysis of these complex policies is needed, before consideration for incorporation. (In particular, the BP covers the project documents that the Bank makes publicly available. It does not cover documents that the borrower discloses in order to comply with social and environmental safeguard policies.) The following OPs/BPs are therefore excluded from the consolidation exercise:

Identification/Preparation/Appraisal/Board Presentation

- OP / BP 3.10, *Financial Terms and Conditions of IBRD Loans, IBRD Hedging Products, and IDA Credits*
- OP 4.76, *Tobacco*
- OP 7.00, *Lending Operations: Choice of Borrower and Contractual Agreements*
- OP 7.20, *Security Arrangements*
- OP 7.30, *Dealing with De Facto Governments*
- OP / BP 14.25, *Guarantees*

Fiduciary

- OP / BP 7.40 *Disputes over Defaults on External Debt, Expropriation, and Breach of Contract*
- OP / BP 11.00, *Procurement*

Safeguards and Related OPs and BPs

- OP / BP 4.00, *Piloting the Use of Borrower Systems to Address Environmental & Social Safeguard Issues in Bank-Supported Projects*
- OP / BP 4.01, *Environmental Assessment*
- OP / BP 4.02, *Environmental Action Plans*
- OP / BP 4.04, *Natural Habitats*
- OP 4.07, *Water Resources Management*
- OP 4.09, *Pest Management*
- OP / BP 4.10, *Indigenous Peoples*
- OP / BP 4.11, *Physical Cultural Resources*
- OP / BP 4.12, *Involuntary Resettlement*
- OP / BP 4.36, *Forests*
- OP / BP 4.37, *Safety of Dams*
- OP / BP 7.50, *Projects on International Waterways*
- OP / BP 7.60, *Projects in Disputed Areas*

Several of the OPs/BPs excluded from the consolidation are currently under review.

- ***Procurement policy.*** Revised Procurement Guidelines were issued in 2011 to reflect updates to the procurement policy framework. Management has since shared with Executive Directors an approach paper for a more fundamental review of the policy architecture for procurement in operations.[10] Consultations are now underway. After further analysis and discussions with Executive Directors and consultations on a draft statement of procurement policies, it is planned to present the revised policy paper to Executive Directors for approval by December 2013.

- ***Safeguard policies.*** The Bank has recently initiated a process for updating and consolidating the Bank's safeguard policies. Since the safeguard policies were put in place, many client countries have developed regulatory frameworks to address environmental and social issues in development. Significant investments made since the 1990s have led to success in developing such frameworks and in building client capacity, which in many countries provides the foundation for country ownership. The updating and consolidation process will capture Management's lessons learned from past experience with safeguard policy application, including a stronger focus on the use of safeguard polices to support environmentally and socially sustainable development; greater emphasis on assessing potential social impacts and risks; improvements in implementation support; and more effective approaches to monitoring, evaluation, and completion reporting, including the enhanced use of indicators. After the conclusion of discussions on the review approach with Executive Directors, consultations would follow.

- ***Guarantees.*** Currently the Bank's policy and procedure statements for project-based guarantees (partial risk or partial credit guarantees) and policy-based guarantees are self-standing under OP/BP 14.25. However, guarantees can be viewed as simply another financing mechanism for ILs and DPLs. As part of the effort to mainstream guarantees[11], Management is considering updating and embedding policy and procedures on project-based guarantees within the revised OP 10.00, and embedding policy and procedures on policy-based guarantees into an expanded OP 8.60 on Development Policy Lending. The use of guarantees in ongoing country programs would be fostered through the proposed simplification and mainstreaming.

12. ***Design of the New OP and BP.*** The draft OP and BP 10.00 are attached as Annexes B and C, respectively. They incorporate the design features highlighted above. The drafts are intended to be readily accessed and easily understood by clients and staff, and to assist them in better balancing risk and results in IL. The draft OP statement is written to provide the space for enhanced Bank support, notably for institution building, during operational implementation, taking into account the risks involved in an operation. It translates policy content into one clear statement, providing client countries and staff with the requirements for IL support (referencing, as needed, the areas that are not part of the consolidation). It describes the kinds of activities that IL supports. It sets out the elements of the assessment process that the Bank undertakes in

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[10] *The Bank's Procurement Policies and Procedures: Proposed Policy Review Approach Paper* (AC2012-0010), February 9, 2012.

[11] *Modernizing the World Bank's Operational Policy on Guarantees: Approach Paper* (CODE2-11-0053), October 11, 2011.

deciding whether or not to support the client's proposal and present it to the Board for approval. It incorporates Bank policy on exceptional arrangements for the use of IL in situations of fragility, crisis, and emergency. Moreover, it sets out roles and responsibilities during implementation and incorporates recent modifications to the Bank's policy on restructuring IL operations. Lastly, it covers monitoring during implementation and ex-post evaluation, both vital elements of the results architecture for IL. The BP statement provides a roadmap for meeting the policy requirements set out in the OP. For ease of use by clients and task teams, it is organized around the operational cycle. It is written to be fully compatible with the new accountability and decision-making framework, setting out what is required in advance of each decision point and what decisions are required at each of those points.

13. ***Clarity around a Single IL Instrument.*** One of the original goals of IL reform as discussed with Executive Directors in 2009 was to consolidate and clarify the IL menu to respond to clients' diverse development and financing needs. First, IL operations will use risk as a key element in determining which projects will get fuller preparation and due diligence efforts and which projects can be prepared in a more streamlined way. As part of the single policy, exceptional provisions will be set out for rapid response to crises and emergencies. Support in fragile and conflict-affected situations, for which risk tolerance has to be higher, will also be incorporated under exceptional provisions. Second, other submenu options have in practice provided no additional value. Clarifying that there is only a single IL instrument will allow the Bank to do everything it can do today in support of clients, but without the potential for misunderstandings that have led to some of the policy implementation issues that were raised in the internal and independent reviews. The current subforms of IL have been incorporated into the draft OP and BP as follows (Table 1 shows the current levels of use of each of these forms):

- *Specific investment loan* (SIL) is the most common title used for IL support. It has traditionally provided ample flexibility: it can cover a mix of investment expenditures and recurrent expenditures and can support capacity building. Projects that would have been classified as SILs will fit naturally under the new single IL product.

- *Sector investment and maintenance loan or program* (SIM/SIP) has been used as a title (there is no specific SIM/SIP policy) for operations that focused on public expenditure programs in particular sectors. The SIM/SIP aimed to bring sector expenditures, policies, and performance in line with a country's development priorities by helping to create an appropriate balance among new capital investments, rehabilitation, reconstruction, and maintenance. They also often supported the development of institutional capacity to plan, implement, and monitor an expenditure or investment program—features that are now standard in IL projects in general.

- *Adaptable program loan* (APL) is brought under the overall single policy framework umbrella. The draft OP recognizes that programs may need support from a series of loans (although funding could also come through the use of additional financing or through a low-risk IL project if the program is going well). If a formal series is identified in the first loan, follow-up operations in a series would use a new approval process proposed as a policy change in Section III. In a rapidly changing world the use of triggers for later operations has proven unwieldy and is dropped in favor of policy and procedure similar to the well-functioning practice for additional financing.

Cross-country (including regional) programs (informally “horizontal” APLs) are covered in the new OP and BP.

- *Learning and innovation loan* (LIL) is eliminated. The LIL was designed to focus on experimental learning. However, experience has shown that, with a financing cap of US$5 million and little or no savings in preparation costs, these loans were not appropriate to their intended purpose, and client demand for LILs essentially ended several years ago. In their place, countries now often build impact evaluation into IL-supported operations when they seek Bank assistance in testing a new approach before mainstreaming it.

- *Emergency recovery loan (ERL*) responds to a special set of conditions that need to be addressed through rapid action. Those quick-action features are retained and built into the proposed new single policy under special considerations for countries faced with natural or man-made disasters, conflict, fragility or specific vulnerabilities, including for small states.

- *Technical assistance loan* (TAL) is no longer needed as a separate category, since support for institutional capacity can be the central or even the only feature of support in an operation processed under the single OP and BP.

- *Financial intermediary loan* (FIL) is brought fully under the single IL policy framework. In recent years, IFC has provided the bulk of support under the World Bank Group umbrella for stand-alone operations to financial intermediaries, because client countries prefer not to provide a sovereign guarantee in such situations. Still, this is an important option for some countries, and clients will continue to be able to seek Bank support for their financial intermediaries through the single instrument. Lending through IL to FILs will continue to be tagged, and the procurement and safeguard policies specific to FILs remain applicable. Because these loans will be tagged, monitoring their preparation and implementation, notably the special procurement and safeguard features, will be straightforward. (The current FIL OP and BP are overly prescriptive, setting out in detail material that is more suited for guidance to staff.)

- *Global Environment Facility (GEF) and Montreal Protocol (MP) operations* are brought under the single IL policy and procedure framework umbrella, since the supported operations are, in practice, the same as other investment operations and the draft OP 10.00 confirms the continued applicability of the relevant OPs/BPs.

- *Additional financing* remains as an element under the single IL policy framework.

Table 1. Use of the Investment Lending Instrument in Recent Years
(number of projects)

Subform of IL	***FY06***	***FY07***	***FY08***	***FY09***	***FY10***	***FY11***	***FY12***
Adaptable program loan	36	34	31	36	28	34	21
Emergency recovery loan	33	39	36	47	29	33	16
Financial intermediary loan	3	5	4	5	11	6	5
Learning and innovation loan	0	1	0	0	0	0	1
Specific investment	206	207	209	194	238	248	181
Sector investment and maintenance	10	8	8	0	7	6	2
Technical assistance loan	15	23	18	17	20	25	16
Total*	**303**	**319**	**306**	**300**	**333**	**352**	**244**

* Two operations in FY07, one in FY09, and two in FY12 did not designate a specific instrument.

14. ***Mapping the Changes.*** Dedicated annexes to this paper provide a mapping of the changes and how the earlier versions of various OP/BPs and OpMemos are reflected under the new architecture. Annex D summarizes the disposition. Annexes E-G shows the details regarding the disposition of existing OPs, BPs, and OpMemos relative to the draft OP/BP 10.00. With respect to the existing OPs, policy content has been retained, but material dealing with non-policy matters is proposed to be included in BP 10.00 while content that is neither policy nor procedure is to be included under internal processing steps or guidance, if still relevant. With respect to the existing OPs, policy content has been retained, but material dealing with non-policy instructions to staff is included in BP 10.00. Content that covers internal processing steps is moved to internal processing arrangements. Guidance material is separated and included in IL guidance notes. With respect to the current IL BPs, again content covering internal processing steps and guidance has been similarly removed. In addition, content already covered in the IBRD General Conditions for Loans, IDA General Conditions for Credits and Grants, Standard Conditions for Grants Made by the World Bank Out of Various Funds, or in Standard Conditions for Advances Made by the World Bank under its Project Preparation Facility is no longer repeated in OPs and BPs, allowing for a more concise OP/BP formulation.

III. POLICY CHANGES FOR BOARD APPROVAL

15. In drafting the single OP and BP and consolidating the various OP/BP statements, Management has identified several areas in which it recommends specific policy changes for the Executive Directors' consideration and approval. These policy changes are provisionally reflected in the draft OP (Annex B) statement; if approved, the changes would all be reflected in the final OP 10.00 statement.

A. Fragility

16. As noted in the Approach Paper discussed at CODE in April 2011, the incorporation of OP/BP 8.00, *Rapid Response to Crises and Emergencies*, into the consolidated OP/BP 10.00 would clarify that the scope of the policy also applies to situations of fragility. Lack of political stability and security, linked with often-weak institutions, poses fundamental challenges for development efforts. Fragile situations exhibit a twofold risk dynamic: the risk of failure is high (e.g., in markets, government, results), and the impact of such failure can be more catastrophic, implying a high risk from inaction or delayed action. When a borrower does not have sufficient institutional capacity because of prolonged fragility or conflict, special considerations apply. That clarification in policy is

a step forward in delivering on the Board-endorsed operationalization of the 2011 WDR.[12] Such considerations would allow for better implementation support, simplified operational procedures, and alternative implementation arrangements to reflect the specific challenges in situations of fragility. In addition, some countries due to specific vulnerabilities, including for small states, may also need this added flexibility, which could be considered under the new policy. These existing special considerations carried over from OP/BP 8.00 include provisions for fiduciary, environmental, and social requirements, a higher limit on Project Preparation Advances, and the option of special procurement arrangements and alternative start-up implementation arrangements. One exception is that for category A operations, the streamlined- ex-ante safeguard requirements are allowed to be deferred only in cases of emergency. In all cases, the justification for using these special considerations would be included in Project documents.

B. Economic Analysis of Investment Operations

17. Rigorous economic analysis is a key element of IL operations. However, the approach needed to be adapted to the changing demand and to ensure that the appropriate analysis is used for different types of operations. This is the main driver behind the proposed revisions of the policy. For instance, in reviewing cost-benefit analysis in IL operations, IEG concludes, "The Bank needs to define the scope for cost-benefit analysis in a way that recognizes the legitimate difficulties in quantifying benefits while it preserves a high degree of rigor in justifying projects."[13] Management engaged some of the same experts who worked in the early 1990s to develop the existing policy to help formulate the new proposal. Their conclusion, set out in Annex 6 of the IL policy consolidation paper discussed by CODE in June,[14] is that rigorous economic analysis remains just as important for project consideration and should be maintained as a requirement. However, with almost 20 years of experience, they also conclude that the emphasis should be on better use of economic analysis in making choices in project selection and design. It should not be on just one number, a projected economic rate of return (projected ERR) or projected net present value (projected NPV), which even when data are readily available inevitably results in a highly uncertain estimate when projections need to go out 10, 20, or even 30 years. While quantification remains the norm, they note that, in practice, (a) projects are not isolated activities but are embedded in a government development strategy supported through an agreed country partnership with the Bank, (b) the availability of all of the relevant quantitative information and its costs differ dramatically across countries and types of projects, (c) country conditions, from fragility to well-functioning institutions, have implications for the analysis, and (d) timing is often crucial in the provision of project support. The proposed new policy continues to require rigorous economic analysis with quantification as the norm, and sets out an approach that helps Management answer three key questions:

- **What is the project's expected development impact?** This is the traditional question underlying the Bank's approach to cost-benefit analysis. It requires the careful

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[12] See *World Development Report, 2011: Conflict, Security and Development*, World Bank, 2011, and *Operationalizing the 2011 World Development Report: Conflict, Security and Development* (DC2011-0003), April 4, 2011.

[13] See *Cost-Benefit Analysis in World Bank Projects*, Independent Evaluation Group, World Bank, 2010.

[14] *Investment Lending Reform: Modernizing and Consolidating Operational Policies and Procedures* (CODE2012-0025), May 22, 2012.

consideration of the expected stream of project benefits (whether quantifiable in dollar terms or not) and expected costs, grounded in an explicit causal framework linking project activities to targeted development objectives.

- **Is public sector provision or financing the appropriate vehicle?** This question probes the rationale for public involvement with respect to financing and/or implementation, given limited public sector resources and many competing demands.

- **What is the World Bank's value added?** This question examines the World Bank's contribution to the project. It seeks to determine the expected benefit from Bank staff involvement and whether the proposed project makes good use of staff effort toward helping client countries achieve development impact.

18. The draft calls for a decision at the concept stage on the type of economic analysis to be undertaken, a change that means that task team and decision-makers' thinking on expected benefits and costs will come earlier and economic analysis used more proactively in preparation stages through appraisal. The objective is to shift away from what is often too narrow a focus on projecting an expected ERR required for late-stage project documents to a more conceptual understanding earlier on of what the project is attempting to achieve and how it plans to do so. This current approach also allows for taking into account the diversity of the portfolio and the sectoral implications for the type of analysis that is best suited for them.

19. A further change in the draft policy statement reflects the much stronger results focus in IL projects since the existing policy was issued almost 20 years ago. The draft makes an explicit link between the project development objectives and the economic analysis. Another change is the focus on risks to the achievement of the desired results—built into the draft policy. Staff guidance ties the economic analysis (notably sensitivity and sustainability analysis) to the assessment of risks to the achievement of project development objectives. It will provide teams with direction on choosing the appropriate framework for economic analysis for their projects and guidance and tools for doing the analysis. Connected to ongoing work on strengthening peer review of IL projects, the guidance includes good practice on reviewing economic analysis.

C. Series of Projects

20. For a multiphase or multi-country series of projects, the Executive Directors approve the first project under regular procedures and succeeding ones on an absence-of-objections basis unless there are significant modifications. That will not change. However, currently, multiphased series over time use triggers as a signal of readiness for the successive phases. As noted earlier, triggers have proven to be an unwieldy tool for measuring readiness for subsequent support and would be dropped as a requirement. Instead, approval of financing for follow-on projects would be based on the performance of the initial phase as well as consistency with the development objectives established for the series. This change does not affect projects traditionally referred to as horizontal APLs: loans to multiple borrowers following a standard template (such as the Avian Influenza Control and Human Pandemic Preparedness and Response series).

D. Additional Financing

21. The progress report on additional financing[15] notes that "quick" and "simple" are two words not normally associated with Bank IL support, but that they are well suited to the experience with additional financing. These loans have proven themselves as a way to provide low-cost, high-return support in an environment that presents relatively low risk, since they build on the underlying operation's solid experience in meeting development objectives. Additional financing is provided to address one or a combination of three situations: (a) completion of the original project activities in the event of an unanticipated cost overrun or financing gap; (b) implementation of additional or expanded activities that scale up a project's impact and development effectiveness; and/or (c) implementation of modified or additional project activities included as part of project restructuring when the original loan amount is insufficient to cover such activities Clients uniformly appreciate these loans. These criteria have not changed as a result of the current IL policy consolidation exercise.

22. To reduce the risk that this type of financing is used when a completely new operation would be more appropriate, the current policy requires that the additional loan be expected to close within three years after closing of the original loan. Experience has shown that other policy elements are adequate to ensure the appropriate use of additional financing without this stipulation. Additional financing would only be provided if implementation of the project, including substantial compliance with loan covenants, is satisfactory and the additional loan is economically justified. Teams are also expected to consider alternative financing options first. Also, each operation is expected to have an updated appraisal and risk and results framework. These measures, as well as managerial oversight, are in place to provide needed assurance that additional financing is used in accordance with the three criteria noted in the paragraph above. Therefore, Management proposes that the three-year provision be deleted from the policy. To minimize the risk of extensive delays in the evaluation of IL operations, Management has added a new requirement. When an additional financing request is expected to result in an overall Project implementation period that would exceed ten years, an ICR is prepared before Management's decision on appraisal and negotiation of such additional financing and a supplemental ICR is prepared upon the full Project completion, provided however that if the additional financing is solely to address a financing gap or cost overrun, Management may decide to have a single ICR prepared upon the full Project completion.

E. Additional Flexibility in Audit Requirements

23. At present, borrowers are required to furnish audits within six months after the project year-end. While that would remain the norm, experience shows that, in some cases, there are good reasons for having more flexibility in terms of timing. The revised policy will continue to explicitly require annual audited project financial statements. It would, as a standard, call for those statements to be furnished six months after the close of the borrower's financial year. However, it will permit agreeing to an alternative time limit for furnishing the required annual audits, without the need for a policy waiver. The greater flexibility will allow the Bank to better take into account country considerations and, where appropriate, the use of country systems in cases in which the six-month rule might unnecessarily preclude their use. Specific guidance

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[15] See *Additional Financing: Responding to New Needs—Progress Report* (SecM2009-0025), January 29, 2009.

would explain when this might be an option, and Management-executed monitoring and reporting would guard against its unwarranted application.

F. Increasing the Project Preparation Advance Limits

24. The Bank currently limits its Project Preparation Advances to US$3 million normally and US$5 million in situations of rapid response to crises and emergencies. These limits have not been changed for several years and no longer reflect the costs countries often face in preparing projects. Management is proposing to increase the current Project Preparation Advance limits and to broaden the application of the higher limit from just crises and emergencies to projects responding to fragility and special vulnerabilities (including small states). The proposed new limits are US$6 million and US$10 million respectively.

G. General Policy Consolidation

25. In addition to the specific policy changes described in A-F above, the consolidation process has identified a number of elements of OP statements that, taking into account the OP/BP definition and distinction, should be classified as BP statements, processing steps or guidance. In some cases, elements of the current BP statements are more appropriate for processing steps or guidance. Annex E-G details these reclassification changes and Management presents these changes for Board consideration and approval.

V. CHALLENGES AND RISKS

26. Management believes that the consolidation and modernization of IL policy responds to client demand and will be an important contribution to the goals of the overall Bank modernization—results, openness, and accountability. At the same time, it presents some challenges and risks.

27. ***Scope and Timing of the Reform.*** Since the exercise is mainly a consolidation, there is a risk that it disappoints many clients and stakeholders, who may have been looking for broader IL policy reform. In many cases, clients, staff, and stakeholders specifically cite procurement and safeguard policies and operational processes. As noted above, the Bank is considering procurement and environmental and social safeguard policies in the context of separate ongoing reviews and consultations, but neither will be completed before the end of calendar 2013. The greater risk is delaying the current consolidation, given that analysis has found major risks arising from obsolete, duplicative, and unclear policy and guidance for investment lending. By moving forward with the consolidation, the Bank will have in place an IL policy and procedure statements that address in a timely manner pressing issues around IL policy clarity and compatibility. The new BP statement is consistent with the accountability and decision-making framework that is a key component of business modernization. Any policy changes resulting from the procurement and safeguard reviews can be submitted for approval when they are ready; ideally they would be operationalized through incorporation into the consolidated OP 10.00 policy statement. Under the modernization agenda, there are ongoing discussions between Executive Directors and Management on steps that could be taken to further simplify Bank processes, simplify documentation and streamline project approval. Any relevant changes resulting from that work can be incorporated when that work is completed.

28. ***Implementation of the Economic Analysis Policy.*** The new policy requires rigorous economic analysis but provides greater flexibility in its form and content, taking into account sector and country considerations. There is a risk that the new policy will be taken as reducing the importance of economic analysis. To address this challenge, the guidance and training accompanying the rollout, together with the requirement to explicitly document the scope and form of economic analysis at an early stage, are designed to reinvigorate the use of economic analysis in investment lending. The guidance sets out the basic concepts, the work that goes into making the choice on the form of economic analysis, considering alternative approaches and designs, the use of sensitivity analysis, dealing with externalities, and the updating of economic analysis at project completion. Mandatory training for operational staff wishing to become IL team leaders will highlight the need for rigorous economic analysis, with links to more detailed training and guidance.

29. ***No Dilution of Bank Policies***. The effort to revisit the hierarchy of policies, procedures, instructions and guidelines and move to a shorter and principles-based OP could be regarded by some as an attempt on the part of the Bank to dilute its current package of IL policies. It is Management's firm conviction that the process of modernizing the IL policy framework will not lead to any dilution of Bank policies but rather to an increase in their development effectiveness. The Bank has prepared a very detailed analysis on how information previously included in OPs, BPs, and OpMemos have been mapped under the draft OP and BP. In this context it is important to emphasize that the IL OP is a short, focused statement of principles that will help provide much clearer direction to staff on the actions needed to achieve the Bank's development mandate.

30. ***Role of the Inspection Panel***. During the consultations, some asked if the effort to consolidate IL policies will affect the Inspection Panel's ability to fulfill its mandate. The new OP/BP 10.00 will not affect the Panel's mandate nor impact its ability to carry out investigations. The new OP/BP retains the policy content of the previous OP/BP (except for the policy changes identified in this paper). Moreover, the aim of the reform is to strengthen the IL instrument effectiveness and developmental impact, improve compliance, and increase accountability.

VI. NEXT STEPS AND REQUEST FOR APPROVAL

31. As part of the modernization and corporate governance agenda aimed at strengthening the focus on results, openness and accountability, this paper describes the proposed consolidation, update, and clearer restatement of 19 current OPs, 18 BPs, and 9 OpMemos. The consolidation incorporates the risk management approach to achieving results and links IL to the new access to information policy. Its clarity allows for an enhanced focus on accountability.

32. ***Next Steps.*** If Executive Directors approve Management's proposal described in paragraph 37 below, Management will undertake the following actions to ensure smooth implementation of the IL OP/BP reforms.

33. ***Updating Policy and Procedure Statements***:

- Management will issue the new OP/BP 10.00. Management will also make a number of changes to other OPs and BPs affected by this exercise. While it is not expected that the exercise will raise any additional policy issues, given the magnitude of the effort, if such inadvertently omitted policy issues are identified, Management will consult with the Board accordingly.

- OP/BP 8.60 (Development Policy Lending) and OP/BP 9.00 (Program-for-Results Financing) would be updated to include provisions similar to those proposed for OP/BP 10.00 which replace current stand-alone OPs/BPs (which will be retired), specifically, OP 12.00, *Disbursement*, OP/BP 13.00, *Signing/Effectiveness*, OP/BP 13.30, *Closing Dates*, OP/BP 13.40, *Suspension of Disbursements*, and OP/BP 13.50, *Cancellations*.

- Policy and procedure statements, including OP/BP 8.00, *Rapid Response to Crises and Emergencies*, OP/BP 8.40, *Technical Assistance*, OP 13.60, *Monitoring and Evaluation*, and OP 14.40, *Trust Funds*, that currently cover both IL related and non-IL related topics would be redacted to remove the IL-related material but retained in the Operations Manual, pending the larger work on the Operations Manual highlighted above.

- The Operations Manual would be edited to update all relevant references.

34. ***Staff Guidance and Training.*** Staff will be provided with updated guidance on all the key steps in the project cycle, from identification through self-evaluation and on the key assessment tools, including technical, economic, and financial management analysis. Management will update the IL training that is part of the Operational Core Curriculum and is a mandatory prerequisite for staff to lead IL teams.

35. ***Accountability, Decision-Making, and Quality Assurance.*** The consolidated BP statement is written to be consistent with the new accountability and decision-making framework, a key element of business modernization. The enhanced IL quality assurance mechanisms are also elements of these processing steps. Staff will be given guidance and training on these internal process changes. These changes will also be incorporated into the Operations Portal, ensuring their implementation.

36. ***Communications and Outreach.*** While the exercise is mainly a consolidation, update and reclassification, Country Directors, who reached out to client countries during the consolidation period, will brief their clients on the new OP and BP. This will be especially important with regard to the expansion of the special considerations in situations of crisis and emergency to situations of fragility and specific capacity vulnerabilities, including for small states.

37. ***Recommendation.*** While mainly a consolidation and updating, there are a few policy changes for which Management would request the approval of Executive Directors. Management recommends that the Executive Directors approve the proposed policy changes:

(a) the proposal to extend the special policy provisions available in situations of crises and emergencies to cases of fragility and specific vulnerabilities, including for small states, as described in paragraph 16 of the paper (as reflected in paragraph 11 in draft OP 10.00);

(b) the proposal on economic analysis as described in paragraph 17-19 of the paper (as reflected in paragraphs 3 and 5 in draft OP 10.00)[16];

(c) the proposal on revised requirements for approval of follow on operations in a series as described in paragraph 20 of the paper (as reflected in paragraph 14 of draft OP 10.00);

(d) the proposal to drop the three year limit for additional financing as described in paragraphs 21-22 of the paper;

(e) the proposal to add more flexibility to the timing of financial audits as described in paragraph 23 of the paper;

(f) the proposal to increase the PPA limits, as described in paragraph 24 of the paper;

and

(g) the proposed reclassification of various statements contained in specific OPs as BPs, processing steps, or guidance, as described in paragraph 25 of the paper and as reflected in OP 10.00 (see Annexes E-G of the paper).

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[16] See also paragraphs 6 and 17 of the draft BP.

ANNEX A. SUMMARY OF CONSULTATIONS

1. The World Bank undertook a consultation process from June 11, 2011 to September 14, 2012 to seek views and inputs on the proposed IL policy consolidation. Consultations were both internal and external. The consultation draft paper, the basis for the consultations, was the result of revisions made to take into account discussions at CODE. The paper and annexes were posted and available in Arabic, English, French, Russian, and Spanish.

2. ***Whom did we consult?*** While consultations relied heavily on the web-based process, significant outreach was made to reach key constituencies and to inform those interested regarding the process. To this end, Country Directors forwarded a package of materials to client countries and face-to-face consultations were carried out on demand. A special effort was made to reach multilateral development banks and civil society organizations (CSOs). While staff were consulted during the preparation of the proposal, given the largely internal nature of the proposed changes, a second round of internal consultations was held in parallel with the external consultations.

Feedback Highlights

3. Overall, the feedback was positive and supportive. All understood the overall rationale for IL policy and procedure consolidation as part of the Bank's business modernization agenda. Many wondered why the consolidation exercise had not been undertaken earlier. Table 1 of this annex provides a summary of the feedback from public consultations.

4. ***Alignment.*** Several noted the importance of working with multilateral development banks and other donors to ensure to the extent possible an alignment that would help reduce unnecessary engagement costs for clients.

5. ***Coverage.*** Some wanted more clarity that the policy covers investment projects financed through trust funds and asked if fee-based services (for which the Bank is reimbursed for its work) should come under the policy in the future. A few expressed concerns around separating policy from guidance, notably with regard to economic analysis. Some had questions and sought more clarity regarding results frameworks, monitoring implementation progress, and supporting client countries when project restructuring might be needed. Some noted the importance of the Bank to be able to act flexibly in various country contexts and expressed concern that the consolidation might reduce that flexibility. Lastly, questions were raised regarding the separation of the procurement and safeguard policy reviews from this consolidation process; commentators sought and received assurance that it would not affect the scope of those exercises.

6. ***Fragility.*** They noted the value of the flexibility provided by the special considerations in cases of fragility. They asked for more clarity on what was new and different, notably regarding small states.

7. ***Staff training and client outreach.*** Most emphasized the need for coordination with clients and guidance and training for staff in connection with rolling out the consolidated policy and procedure statements.

Conclusion

8. The consultation process elicited client, stakeholder, and staff views that helped in refining the policy consolidation paper, notably to refine and better explain the consolidation. As noted above, all supported the rationale of the consolidation in the context of Bank's business modernization agenda.

TABLE A1. SUMMARY OF FEEDBACK FROM PUBLIC AND INTERNAL CONSULTATION

Feedback	*Bank Response*
Scope and Content of the Policy Consolidation	
By modernizing and consolidating investment lending (IL) policy, is there a risk that the policy will be weakened?	The effort to consolidate and modernize IL policy responds to recommendations of earlier reviews that pointed out to the high degree of complexity of the policy architecture. More specifically, the IDA14 Internal Controls Review noted that the existing OPs and BPs covering IL were obsolete, duplicative, and provided unclear policy and guidance that could create confusion among staff and affect the efficiency of delivery. It is also important to note that during the effort to consolidate, policy content of various OPs/BPs and OpMemos has been retained (unless that was pointed out in the document as an actual change in policy). Moreover, having a clear policy framework can strengthen IL policy by setting out much more clearly what staff are accountable for in supporting clients in preparation and implementation of investment operations.
What is the relationship of the policy and Bank procedures to guidance and processing steps?	The overall architecture as envisaged in the paper calls for an OP, BP, processing steps or instructions and guidance to staff. The OP concentrates on broad principles of policy designed to achieve wide institutional goals. The BP includes granular instruments providing additional details to the principles noted in the OP. Compliance with both are obligatory. The processing steps/instructions would contain procedural directions (as opposed to substantive ones) issued by Management in order to implement the OP or the BP or both. These documents would describe the mechanics of business transactions, inform staff what documents and information needs to be prepared before various business decisions can be taken, state who has the authority to make key decisions, and who must participate in the decision-making process. Guidance would contain explanations issued by Management with regard to OP, BP and/or procedures. Guidance to staff can include recommended courses of action, best practices, examples, sample documents/templates, and other advice to assist staff in performing various activities.
Are the requirements for various stages of the project cycle being changed especially requirements related to appraisal and completion reports?	As noted above, there are only few policy changes that have been made as a result of the consolidation and those have been highlighted in the document. There are no policy changes in terms of the appraisal requirements or requirements to have ICR within a specified time of project closing.
What does the policy no longer refer to interim audit reports?	The revised policy does not ask for such interim reports to be dropped. In fact, interim audit reports are one among many reports that are required under loan agreements and are reviewed as part of monitoring the client's compliance with its contractual undertakings. However to provide greater clarity, the BP does now refer to "unaudited interim financial reports."
Are teams no longer required to prepare for implementation during project preparation?	Implementation support planning has been mainstreamed into project preparation. Each Project Appraisal Document has an annex detailing implementation support.
Are supervision and appraisal requirements related to safeguards weakened by the consolidation of non-safeguard policies?	The appraisal and supervision/implementation support requirements for IL will be covered in the revised IL policy. Please note that there have been no policy changes with regards to appraisal, implementation support and supervision beyond the six policy revisions highlighted in the paper.

Feedback	*Bank Response*
Has the emphasis on supervision decreased as a result of the policy consolidation? Why use implementation support instead of supervision?	As part of the modernization efforts as well as the IL reform, the Bank has been placing more emphasis on implementation support. The change in name does not imply a lesser effort. On the contrary, it is a signal that our efforts should go beyond supervising and work with government and development partners to address implementation issues. For instance, in addition to the requirements to address compliance and contractual agreements, we have now placed additional emphasis on measuring and reporting on results as well as identification and management of the risks to results. This emphasis has been reflected in the revised OP/BP. In addition, we now disclose our implementation monitoring reports to the public. This is part of a broader effort at the institution to enhance focus on results and better manage risks to the achievement of those results.
Why are many of the details on responsibilities dropped from the draft BP?	As noted above regarding the overall hierarchy, some of the details that were previously included in the BP related to processing steps which are best articulated in documents that provide such instructions to staff. From a policy perspective, the respective responsibilities of the Bank and the Borrowers have been maintained.
Are Result Frameworks optional under the new policy?	The draft OP and BP retain the requirements for Monitoring and Evaluation. The requirements regarding results frameworks have not changed and each operation is expected to have one. Results frameworks are developed in collaboration with the Borrower during preparation and after approval of the Project, progress on the PDO and indicators are monitored in the Implementation Status and Results Report (ISR). The results framework is disclosed to the public at the time of approval and are updated and disclosed as part of each ISR.
Has the consolidation of the OP/BP lessened the expectation that Bank staff should be more proactive in identifying and managing risks?	The current version of the revised OP/BP emphasizes the importance of focusing on the risks to the achievement of the development objectives. Risk assessment and management is a dynamic process that begins with preparation and continues during implementation. The new risk-based approach refocuses the attention of teams and Management on addressing risks that arise during implementation and may impact the achievement of the development objectives. Risk is now part of monitoring reports and will eventually be incorporated into the Corporate Scorecard.
Are restructuring requirements changed?	The current version of the revised OP/BP incorporates the updated language of the latest restructuring policy that was approved by the Board on October 22, 2009. No new changes to that policy were introduced as part of the consolidation effort.
Are restructuring papers no longer disclosed to the public?	As per the new Access to Information Policy, once a restructuring has been approved by the Board or Management, the restructuring paper is made publicly available.
Are project restructurings no longer institutionally recognized by IEG (Independent Evaluation Group) upon project exit?	The current restructuring policy approved by the Board in October 2009, retained such recognition and the current version of BP 10 has been revised to reflect the same.

Feedback	*Bank Response*
Does the new policy change the requirements for evaluation and drawing lessons learned to improve the design of future projects, sector and country strategies and policies?	The draft OP and BP retain requirements for reporting on project outcomes. While Management does not make policy for IEG, as now, IEG will verify the Bank self-assessment. The high technical quality of operations is something that has not changes and operations are expected to draw on the best practices and lessons learned in the country and sector, as appropriate for the specific operation. Moreover, the Bank is strengthening the emphasis on the knowledge work and is putting in place a number of initiatives to facilitate knowledge sharing for staff, including drawing on lessons learned from IL project completion reports and IEG validation.
How will the quality of financial intermediary lending, including the viability of the financial institutions in question, be assessed?	Quality assurance of all IL is critical and the Bank is undertaking a number of initiatives to strengthen this process across the Board. As for FILs, they will to go through a rigorous review process like all IL. As for the specific question at hand, the guidance notes to staff will set out the methodologies for assessing financial intermediary lending project quality and the processing steps will include appropriate review arrangements.
To what extent does the consolidated policy and Bank procedure (including supervision requirements) apply to trust funds?	The policy does not specify the source of financing. In fact, the OP states in footnote 1 that “Bank financing of investment projects refers to the provisions of loans, credits, or grants financed by the Bank (including IBRD and IDA) from its resources or from trust funds financed by other donors and administered by the Bank, or a combination of these.”
Are fee-based services, which are growing in some Bank Regions, covered under the consolidated IL policy?	The policy for fee-based services is not affected by the current consolidation effort. The policy has been attached to the OP 8.40 (technical assistance). While the IL components of that policy are included in the consolidation, the non-IL specific aspects including those related to fee-based-services are retained.
We note that the specific assignments of Bank staff, in particular task team, team leader, lawyer and finance officer are not in the revised OP/BP?	As noted above, the revised OP and BP focus on key policy issues and are complemented with processing steps/instructions that would contain procedural directions (as opposed to substantive ones) issued by Management in order to implement the OP or the BP or both. Guidance notes will also be issued and those would provide the technical details, examples, best practices and so forth for staff to use while implementing the new policy. The areas that were not included in the revised OP/BP were judged to be better fit in the processing steps/instructions or guidance to staff. One example to illustrate why this will not affect how the Bank does business that can be noted here is the requirement that the TTL prepare an implementation status report every 12 months. While this is not written into policy, it is in the instructions to staff. In fact, these reports are now disclosed publicly, which enhances our transparency, openness and accountability. Another example is the specific reporting requirements for each operation, those are normally listed in the legal agreements of each operation, and the legal agreements are available to the public.
Why does the new OP/BP 10 drop some details like the need to identify problems promptly and recommend ways to resolve them and that the Bank needs to draw on lessons to improve the design of future projects, sectors and country strategies and policies?	While we agree these are all important areas, they are all covered in the guidance to staff and some are also strengthened. The shifting from supervision to implementation support is precisely to ensure the Bank focuses more effort on working with the client to address implementation issues, quickly resolve problems, and build capacity. The changes to the restructuring policy in October 2009 were also designed to help improve implementation performance.

Feedback	*Bank Response*
Does the consolidated OP/BP 10.00 drop the role of IEG in reviewing ICRs?	Management does not make policy for IEG nor does it have any authority over its work program. IEG reports directly to the Executive Directors. However, IEG's role is not affected as a result of the current consolidation effort. (see OP 13.60, *Monitoring and Evaluation*).
Are Implementation Status and Results Reports (ISRs) no longer required under the revised policy?	Teams are still required to prepare an ISR every twelve months. This requirement is reinforced through processing steps/instructions, reminders through the operations portal, and guidance. In many regions, ISRs are completed more than once a year. All ISRs are made publicly available. Management reviews compliance with ISR preparation, submission, and disclosure quite regularly.
Will transparency principles and Access to Information continue to apply to all documentation?	Yes, the Access to Information Policy applies to all Bank products including IL.
Economic Analysis	
How is the revised policy for economic analysis likely to affect the quality economic analysis that will support investment project preparation?	The main driver for the change in the policy on economic analysis is to ensure that our policy is better suited to provide answers needed for a range of operations in various country and sectoral settings. The change also calls for starting economic analysis earlier in the process of project preparation and to better tailor the analysis to the type of operation at hand, taking into account the best practices in this area for a specific issue or country. In other words, the revised policy moves away from a focus on just one number, the expected economic rate of return, calculated relatively late in project preparation and focuses more on economic analysis as an active input into project selection and design. It does so by requiring the choice and content of economic analysis to be made at the project concept stage and linking the analysis more closely with the project development objectives and the work on assessing the risks to those objectives. To justify the form and content they propose for the economic analysis, teams will need to think more clearly early on about potential benefits and costs and the data and techniques available for their measure, sharpening project design and identifying key information gaps that can be addressed during preparation or project implementation. In addition, by the time of approval, projects need to demonstrate not only their economic rationale but also the rationale for public sector involvement and the value added of Bank support. New economic analysis guidance will lead staff through the process and provide links to relevant reference material and concrete examples.
What will be the treatment of externalities or the link to environmental assessment?	The current effort does not include changes to the policy on environmental assessment. The economic analysis guidance includes the technical details of how such analysis will be carried out including issues related to the concept of externalities, notes the importance of incorporating externalities in the economic analysis, and provides links to examples. It also notes that the Bank's environmental and social safeguards normally address the relevant issues, which are then reflected in the project design.

Feedback	*Bank Response*
Does the draft policy drop the requirement for cost-benefit analysis? What replaces that?	The World Bank believes in rigorous project economic analysis and the changes proposed are designed to increase the attention to economic analysis in helping the client with project choice and project preparation. The current policy sets out good guidance on doing project economic analysis has been well suited for certain types of operations that lend themselves naturally to cost-benefit analysis but not to others. Hence, the aim in the revised policy is to maintain the strong rigor while adapting to the changing demands taking into account the best practice in each of the areas we work on. Moreover, we believe that economic analysis should be used to show that, under reasonable assumptions, a project can be expected to return net benefits that justify its support—its development impact. That is the goal of the draft policy. The guidance will set out that, as now, staff will use either cost-benefit or cost-effectiveness analysis (or a combination of both) but the scope of the work done to demonstrate the project's economic rationale will depend on data availability, internal to the project or external, the time frame for preparation, and country and sectoral factors.
Does the policy drop the requirement for the robust analysis of alternatives?	The policy requires rigorous economic analysis for all IL operations. The guidance to staff emphasizes the importance of explicitly considering realistic alternatives (including alternatives to public provision or involvement) as part of the economic analysis and provides links to examples.
What will be the timing of economic analysis and its tracking during implementation?	The draft BP is explicit that economic analysis must be considered early in the preparation cycle of an operation. More specifically, it calls for such analysis to start at the concept stage. The Bank procedure calls for the team to identify the type of economic rationale and/or analysis appropriate for the project. This would allow for an early identification of the form and scope of economic analysis to be done during preparation. The draft guidance sets out how teams should go about gathering the necessary information before the concept meeting, carrying out the analysis during preparation, monitoring whether the project is generating the key data during implementation.
Has the current economic analysis requirement been dropped? If so, how will the Bank ensure that the potential risks and costs (to people and the environment) will be appropriately factored into Bank decisions of whether or not to proceed with a project?	Economic analysis remains a mandatory requirement for all IL operations. Hence, that has not been changed with the policy consolidation. In fact, we have moved the discussion of economic analysis earlier in the process (concept stage), and it continues through preparation. With regard to potential risks and costs to people and the environment, the draft policy statement is clear that existing environmental and social safeguard requirements apply. The draft Bank procedure statement notes that the environmental and social requirements (to be clear, these requirements have not been affected by the consolidation of IL policies), must be analyzed at concept and appraisal stages and the Integrated Safeguards Data Sheet prepared for the project be disclosed if the decision is to go forward with preparation.

Feedback	***Bank Response***
Other Proposed Policy Changes	
What is new in terms of support in situations of fragility? Why are small states addressed in this policy change?	The consolidated policy calls for the application of the provisions included as part of OP/BP 8.00, *Rapid Response to Crises and Emergencies*, to situations of fragility and specific vulnerabilities that may affect small states. Lack of political stability and security, linked with often-weak institutions, poses fundamental challenges for development efforts. Fragile situations exhibit a twofold risk dynamic: the risk of failure is high (e.g., in markets, government, results), and the impact of such failure can be more catastrophic, implying a high risk from inaction or delayed action. As noted in the paper, when a borrower does not have sufficient institutional capacity because of prolonged fragility or conflict, special considerations apply. That clarification in policy is a step forward in delivering on the Board-endorsed operationalization of the 2011 World Development Report that focused on fragility. In addition, some countries due to specific vulnerabilities, including for small states, may also need this added flexibility, which could be considered under the new policy. In all cases, the justification for using these special considerations would be included in project documentation.
Will the proposed changes affect regional projects?	There are no changes to the application of IL operations to regional projects as a result of the current consolidation efforts.
Will the proposed change in policy on a phased series of operations, which can have help support a country's longer-term vision, contribute to their use?	The proposed change is designed to maintain the spirit of a phased series of operations that can support a longer-term country agenda but to remove what has proven to be an unnecessary obstacle—the use of triggers identified during the preparation of the first project as the determinant for readiness for the next phase. In practice, even when that project has contributed to the achievement of the overall development objective set out for the series, the triggers set years before are no longer relevant. Instead, it is proposed to use the performance of the previous project as the determinant of readiness to move to the next phase. (There is no change proposed for the current Board approval process.)
What is the rationale for dropping the three-year limit for additional financing (AF)? If that limit is removed, how to we avoid significant delays in evaluation of operations?	Implementation of AF has been successful as noted in the review presented to the Board in February 2009. However, there has been occasions when implementation of an AF is delayed due to reasons that are not foreseen at the time of its processing (for example, procurement issues). The current policy poses rigidity in that regard. During the consultations with countries and staff, they pointed this out as a constraint at times. As for the timing of evaluation, at present, the AF and the parent operation have one Implementation Completion Report. To prevent lengthy delays in the evaluation of operations once the three year limit is removed, Management has added a new constraint, that once an operation reaches 10 years under implementation, an ICR should be prepared, even if the implementation continues.

Feedback	*Bank Response*
Links to Other Reforms	
Will the consolidation reduce the policy space for the upcoming safeguards and procurement reviews?	The current consolidation does not affect procurement or safeguard policies, currently under review. Once these policy reviews have been completed, consideration will be given to integrating them into the single IL OP and BP.
What is the relationship between the policy consolidation and work on quality assurance, given that IEG is reporting a trend decline in its ratings of the outcomes of investment projects?	Management is concerned with the IEG data on outcome ratings and is analyzing the reasons behind the declines. Management is already taking steps to enhance quality assurance processes, with more emphasis on results and transparency. Moreover, modernization and consolidating IL policy and making procedure fully consistent with the newly adopted accountability and decision-making framework is an important element in the work on quality.
How is similar work on modernizing guarantee policy related to IL policy modernization and consolidation?	An approach paper describing the proposed guarantees reform was discussed in October 2011. Consistent with that paper, an option being considered as a follow-up step to this OP10.00 consolidation is to incorporate relevant project-based guarantee elements into OP 10.00. This would mirror the proposed integration of relevant policy-based guarantee elements into the development policy financing OP, OP 8.60.
How does the consolidation relate to the safeguards review in terms of addressing supervision and appraisal with respect to safeguards?	The appraisal and supervision/implementation support requirements for IL operations are covered in the IL policy. Please note that there have been no policy changes with regard to implementation support and supervision. The safeguards review focuses on safeguard specific issues.
Can you explain reference made in the paper to mandatory instructions – potentially embedded in software -- that would replace a lot of the detail of the BPs and perhaps some elements of existing OPs?	In addition to the OP and BP, staff will be provided with processing steps that specify key management processes at various stages of IL operations. Such processes are then mirrored in our operational portal to ensure the automation of the processes and to provide the right level of controls and accountability. It is important to distinguish such process from policy—which they are not.
How will the Bank address IEG recommendations (not mentioned in the Approach Paper) to strengthen supervision arrangements, monitoring, evaluation and completion reporting as they pertain to safeguards?	As part of IL reform, we have placed more emphasis on implementation support to better achieve and monitor results and manage risks. This is reflected by including the risk and results dimensions into the OP and BP and through our revamping of the implementation support report, which has now been expanded to include more emphasis on risks and results and that, in the past two years, became available to the public.
Partnerships and Harmonization	
Will the IL policy consolidation be harmonized with other multilaterals? Is there a risk that the new policy may increase the burden on client countries? Are there areas where the changes may help countries?	The draft paper was discussed with other multilateral agencies, all of whom are working to update policies. They report no concerns that the World Bank's proposed changes would raise harmonization issues for clients. The consolidation is designed to set out IL policy and procedure statements that are more straightforward in terms of client responsibilities; client feedback has been positive.

Feedback	*Bank Response*
Will the consolidated OP and BP affect the ability of CSOs to be involved in IL, externally as good watchdogs or internally in participating as part of a client country's IL project?	The policy consolidation itself has little impact vis-à-vis accountability of the Bank. However, earlier IL reforms (maintained as part of the consolidation) are important. Over the past couple of years, we have been posting information reported in implementation reviews in the public domain. That allows the public to know much more about implementation and to monitor the achievement of development results in each Bank operation. Moreover, all previous requirements in terms of disclosure have been maintained and are not affected by the consolidation effort.
Will the reforms improve ability to harmonize with country systems?	The policy will have little effect on the use of country systems as those efforts have been underway mostly with regard to procurement and safeguards, and each of these policy areas is going through a separate review process.
What will happen to the old policy and Bank procedure statements? **Will the policy apply retroactively to current projects?**	Once the consolidation is approved, the new OP and BP statements will be issued to staff and apply to all new operations for which preparation begins after their issuance. The statements that are fully replaced will be archived. The statements that have remaining non-investment-lending content will be revised to remove the IL content and reissued. All statements that reference the earlier IL OPs/BPs that were affected by the consolidation will be updated to ensure accuracy.
Rollout	
Will there be training for staff?	Training staff is an important element of the roll out of the revised policy. Online material and communications will be sent to all staff. In addition, clinics and webinars for headquarter and field based staff will be carried out from January to June and after that, as needed.
Will there be communication to client countries? What role will field offices play in that?	Field offices have played a key role in the overall consultation process and will continue to be a major component of the communications with clients. Documentation that will summarize the process, changes and provide the new OP and BP will be made available online and through all field offices to provide to clients. We will continue to see client feedback during implementation and provide any additional support needed.

ANNEX B. DRAFT OPERATIONAL POLICY STATEMENT (OP) 10.00— INVESTMENT PROJECT FINANCING

OP 10.00 – Investment Project Financing

This operational policy statement (OP) was prepared for use by World Bank staff and is not necessarily a complete treatment of the subject.

OP 10.00
______, 2012

Bank-financed investment projects are governed by this OP, the related BP, and the following OPs and BPs, as appropriate (including any relevant Operational Memoranda):

OP 1.00, Poverty Reduction
BP 2.11, Country Assistance Strategies
OP/BP 2.30, Development Cooperation and Conflict
OP/BP 3.10, Financial Terms and Conditions of IBRD Loans, IBRD Hedging Products, and IDA Credits
OP/BP 4.00, Piloting the Use of Borrower Systems to Address Environmental & Social Safeguard Issues in Bank-Supported Projects
OP/BP 4.01, Environmental Assessment
OP/BP 4.02, Environmental Action Plans
OP/BP 4.04, Natural Habitats
OP 4.07, Water Resource Management
OP 4.09, Pest Management
OP/BP 4.10, Indigenous Peoples
OP/BP 4.11, Physical Cultural Resources
OP/BP 4.12, Involuntary Resettlement
OP/BP 4.20, Gender and Development
OP/BP 4.36, Forests
OP/BP 4.37, Safety of Dams
OP 4.76, Tobacco
OP/BP 7.00, Lending Operations: Choice of Borrower and Contractual Arrangements
OP 7.20, Security Arrangements
OP/BP 7.30, Dealing with De Facto Governments
OP/BP 7.40, Disputes Over Defaults on External Debt, Expropriation, and Breach of Contract
OP/BP 7.50, Projects on International Waterways
OP/BP 7.60, Projects in Disputed Areas
OP/BP 8.00, Rapid Response to Crises and Emergencies
OP/BP 8.40, Technical Assistance
OP/BP 8.45, Grants
OP/BP 10.20, Global Environmental Facility Operations
OP/BP 10.21, Montreal Protocol
OP/BP 11.00, Procurement
OP/BP 13.16, Country Portfolio Performance Reviews
OP 13.60, Monitoring and Evaluation
OP/BP 14.10, External Debt Reporting and Financial Statements
OP/BP 14.20, Cofinancing
OP/BP 14.40, Trust Funds
BP 17.30, Communications with Executive Directors
BP 17.55, Inspection Panel

1. Bank financing of investment projects (hereinafter "Investment Project Financing")[1] aims to promote poverty reduction and sustainable development of member countries by providing financial and related operational support to specific projects that promote broad-based economic growth, contribute to social and environmental sustainability, enhance the effectiveness of the public or private sectors, or otherwise contribute to the overall development of member states. Investment Project Financing supports projects (hereinafter "Projects") with defined

[1] Bank financing of investment projects refers to the provisions of loans, credits, or grants financed by the Bank (including IBRD and IDA) from its resources or from trust funds financed by other donors and administered by the Bank, or a combination of these.

development objectives, activities, and results, and disburses the proceeds of Bank financing against specific eligible expenditures.

2. Subject to the other applicable requirements of this operational policy statement (OP), Investment Project Financing may be extended to any type of activities and expenditures, provided they are productive and necessary to meet the development objectives of the Project, the impact of Projects on the borrowing country's fiscal sustainability is acceptable, and acceptable oversight arrangements, including fiduciary arrangements, are in place to ensure that Investment Project Financing proceeds are used only for the purposes for which the financing is granted, with due attention to considerations of economy and efficiency. Under appropriate circumstances, such as to provide the borrower with resources to allow the Project to start or to facilitate implementation of the Project, the Bank may, at the borrower's[2] request, disburse a portion of the proceeds of the Investment Project Financing as an advance.

Considerations in Investment Project Financing

3. The Bank's assessment of the proposed Project is based on various country and Project-specific considerations, including consistency with the Bank's strategy in support of the country, Project development objectives, taking into account technical, economic, fiduciary, environmental, and social considerations, and related risks.

4. *Technical Analysis.* The Bank assesses technical aspects of the Project, including design issues, appropriateness of design to the needs and capacity of the borrower and any project implementation entity, institutional arrangements, and organizational issues for the implementation of the Project in the context of the long term development objectives of the borrower.

5. *Economic Analysis.* The Bank undertakes an economic analysis of the Project. Taking into account the Project expected development objectives, the Bank assesses the Project's economic rationale, using approaches and methodologies appropriate for the Project, sector, and country conditions, and assesses the appropriateness of public sector financing and the value added of Bank support.

6. *Financial Management.* The entity or entities responsible for Project implementation maintain financial management arrangements that are acceptable to the Bank and that, as part of the overall arrangements in place for implementing the Project, provide reasonable assurance that the proceeds of the Investment Project Financing are used for the purposes for which they are granted. Financial management arrangements are the planning, budgeting, accounting, internal control, funds flow, financial reporting, and auditing arrangements of the entity or entities responsible for Project implementation. The financial management arrangements rely on the borrower's existing institutions and systems, with due consideration of the capacity of those institutions.

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[2] In this OP, unless the context requires otherwise, references to "borrower" include the borrower or recipient of record, and any other entities involved in Project implementation.

7. *Procurement*. Procurement policies applicable to Investment Project Financing are set out in OP 11.00, except for procurement referred to in paragraph 11(d) below, in which case the Bank's Administrative Manual Statement requirements apply.

8. *Environmental and Social.* Environmental and social policies applicable to Investment Project Financing are set out in the following OPs: 4.00, 4.01, 4.02, 4.04, 4.07, 4.09, 4.10, 4.11, 4.12, 4.36, and 4.37.

9. *Risks.* The Bank assesses the risks to the achievement of the Project development objectives with due consideration for the risks of inaction, taking in to account the assessments noted above and other relevant information.

Special Considerations

10. The following types of Projects may have specific policy requirements and special considerations.

11. *Projects in Situations of Urgent Need of Assistance or Capacity Constraints.* In cases where the borrower/beneficiary is deemed by the Bank to (i) be in urgent need of assistance because of a natural or man-made disaster or conflict; or (ii) experiences capacity constraints because of fragility or specific vulnerabilities (including for small states), the Bank may provide support through Investment Project Financing under normal Investment Project Financing policy requirements with the following exceptions:

(a) The fiduciary and environmental and social requirements set out in OP/BP 4.01, OP/BP 4.10, OP/BP 4.11, OP/BP 4.12, BP10.00, and OP/BP 11.00 that are applicable during the Project preparation phase may be deferred to the Project implementation phase. The environmental and social requirements exception for Category A Projects under OP 4.01 is only applicable to cases referred to in paragraph 11(i) of this OP.

(b) Such Projects may be processed under special procurement arrangements referred to in paragraph 20 of OP 11.00 and may finance a positive list of goods procured in a manner that satisfies the considerations of economy and efficiency (including national procurement procedures of the borrower).

(c) Such projects are subject to special limits on the use of Project Preparation Advances (PPAs) and retroactive financing.

(d) When the beneficiary's capacity to implement the needed activities is insufficient, the Bank may, at the request of the beneficiary, agree to the following alternative legal and operational Project implementation arrangements: (i) the Bank may enter into arrangements with relevant international agencies, including the United Nations, national agencies, private entities, or other third parties; and (ii) where no viable implementation alternatives exist, the Bank may execute start-up activities financed as a grant from the Project Preparation Facility (PPF) or a trust fund, following applicable internal Bank procurement rules.

(e) Alternative implementation arrangements referred to under subparagraph (d) above are limited to the time necessary to establish or restore borrower capacity and, in all cases, are adopted in Projects that include capacity-building measures to enable a timely transfer of implementation responsibilities to the borrower. Proposals for Bank-executed start-up activities are limited to activities which involve the procurement of small contracts for goods and works, and the provisions of technical assistance necessary to enable the borrower to undertake the execution of subsequent Project activities.

12. Disaster prevention and preparedness and capacity-building activities may be supported by a stand-alone Project with a contingent financing feature or be embedded in a regular Project through a contingent emergency response component that, once triggered, is subject to the exceptional policy requirements in situations of emergencies, crises, and fragility set out in paragraph 11 above.

13. For existing Projects being restructured to add contingent emergency response components that meet the requirements of the Immediate Response Mechanism (IRM), the Executive Directors have delegated to Management the authority to approve Level One restructurings (see paragraph 22 of this OP) that require changes in the Project development objectives.

14. *Series of Projects*. Investment Project Financing may support a series of Projects: (a) to a single borrower, when agreed objectives require support designed as part of a program consisting of a series of two or more Projects; and (b) to multiple borrowers facing a set of common development issues; when two or more borrowers share common development goals, individual Projects prepared for each county may be designed as part of a series of Projects with standard well-defined eligibility criteria and design features.

15. *Projects Involving Financial Intermediaries.* Investment Project Financing may be used to provide funds to eligible financial intermediaries to be used by them for sub-loans to or as equity in final borrowers/beneficiaries. Procurement policies applicable to Projects involving financial intermediaries are set out in OP 11.00, and environmental and social policies applicable to such Projects are set out in the following OPs: 4.00, 4.01, 4.02, 4.04, 4.07, 4.09, 4.10, 4.11, 4.12, 4.36, and 4.37.

Project Preparation Facility (PPF)

16. The Bank may make a Project Preparation Advance (PPA) from the PPF to a prospective borrower to finance (a) preparatory and limited initial implementation activities for the Project or (b) preparatory activities for operations to be financed by Development Policy Lending or Program-for-Results Financing. PPAs are approved by Management under special authority granted by the Executive Directors, who determine, from time to time, the ceiling on the commitment authority of the PPF and the maximum amount of individual PPAs.

17. The following can be borrowers of PPAs: (a) in the case of PPAs made by IDA, a member country or regional organization; and (b) in the case of PPAs made by IBRD, any IBRD-eligible borrower. If the IBRD borrower is not a member country, the member country’s

or countries' guarantee(s) of the repayment of the PPA is required. A PPA is made only when there is a strong probability that the Bank financing for which the PPA is granted will be made, but granting a PPA does not obligate the Bank to finance the operation for which it is granted. Once approved, a PPA is implemented as an Investment Project Financing. The PPA may be refinanced from the proceeds of any Bank financing. If such financing does not materialize, the PPA is repaid by the borrower, unless at the time of PPA approval by the Bank, the PPA was financed by an IDA grant, in which case the PPA is not required to be repaid, but the amount is deducted from the IDA allocation of the country in question.

Borrower and Bank Roles and Responsibilities in Investment Project Financing

18. The borrower prepares the Project for which it seeks Investment Project Financing. The Project's scope, objectives, and contractual rights and obligations are set out in the legal agreement(s) with the Bank. The obligations include the requirement to maintain appropriate implementation monitoring and evaluation arrangements, comply with procurement, financial management, disbursement, social and environmental obligations, and to deal in a timely and effective manner with actual or alleged problems or violations (individual or systemic) in these areas. The borrower measures and reports against the achievement of the Project development objectives and agreed results and provides agreed financial and audit reports.

19. The Bank appraises the proposed Project in accordance with this OP and other applicable policies. During Project implementation, the Bank monitors borrower compliance with the Project obligations as set out in the legal agreements and provides implementation support to the borrower by reviewing the borrower's information on implementation progress, progress toward achievement of Project development objectives and related results, and updates the risks and related management measures. Implementation support and monitoring carried out by the Bank during the implementation period ends at the completion of the Project.

Managing Investment Project Financing

20. *Approval.* The Executive Directors consider Investment Project Financing proposals for approval under regular or streamlined procedures.[3] In the case of a multi-phase or multi-country series of Projects, the Executive Directors consider the Investment Project Financing proposal for the first Project in the series. Subsequent Investment Project Financings are submitted for consideration by the Executive Directors under the absence-of-objection procedures, provided that the overall program in the series as described in the documentation for the first approved Investment Project Financing in the series has not been significantly modified. Except for IDA grants and trust-fund-financed grants explicitly requiring approval by the Executive Directors, all other grants are approved by Management.

21. *Signing.* Signing of legal agreements for Investment Project Financing take places after all required authorizations have been issued and there are no overdue payments to the Bank with respect to other Bank financings to the borrower or financings to or guaranteed by the borrower beyond the number of days that would give the Bank the right to suspend disbursements, unless,

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[3] For more details, see guidance from the Corporate Secretariat.

in exceptional circumstances, Management approves the signing and reports such information to Executive Directors.

22. *Restructuring*. During implementation the Bank and the borrower, may agree to restructure the Project to strengthen its development effectiveness, modify its development objectives, improve Project performance, modify indicators, address risks and problems that have arisen during implementation, make appropriate use of undisbursed financing, extend the closing date, or otherwise respond to changed circumstances. A restructuring involving a modification of the original Project development objectives or a change in safeguard category—from a lesser category to a Category A (as defined in OP 4.01) or the trigger of a safeguard policy not triggered originally by the Project—is referred to as a Level One restructuring and is submitted for consideration by the Executive Directors under the absence-of-objection procedures (or by Management, in cases where the original Investment Project Financing was approved by Management). A restructuring involving any other modification of the Project is referred to as a Level Two restructuring. Management has the delegated authority to approve Level Two restructurings. Management periodically informs the Executive Directors of the Level Two restructurings.

23. *Closing Date.* The "closing date" is the date after which the Bank may stop accepting withdrawal applications under the Investment Project Financing and cancel any undisbursed balance in the financing account. In appropriate circumstances, the Bank may extend the closing date. The closing date is not extended (a) for Projects subject to suspension of disbursements, except for items exempted from suspension, or (b) for any financing to a borrower with any outstanding audit reports or with audit reports which are not satisfactory to the Bank, unless the borrower and the Bank have agreed on actions to address the deficiencies. In exceptional circumstances, retroactive extensions of a closing date may be approved by Management.

24. *Investment Project Financing Completion Report.* The Bank evaluates and reports on the performance of the Project. The report seeks to include the borrower's evaluation of the Project. For Projects that do not become effective or are canceled before significant implementation is initiated, Management provides the Executive Directors with a summary note explaining the circumstances. For Projects for which the legal agreements are not signed, Management informs the Executive Directors of that as part of periodic reporting.

Recourse, Remedies, and Sanctions

25. If the borrower does not comply with its contractual obligations, the Bank consults with the borrower, and requires the borrower to take timely and appropriate corrective measures. The Bank's legal remedies are specified in the relevant legal agreements and include the right to suspend disbursement and to cancel the Investment Project Financing. The Bank exercises such remedies when warranted and as it deems appropriate, taking into account, among other things, country-, sector-, and investment-specific circumstances, the extent of possible harm caused by circumstances giving rise to the remedy, and borrower's commitment and actions to address the identified problems. However, when a loan payment from the borrower to the Bank is 60 days overdue, the Bank suspends disbursement on all loans to or guaranteed by the country.

Additional Financing

26. The Bank may provide additional financing to an ongoing, well-performing Project for completion of Project activities when there is a financing gap or cost overrun, for scaling up the development effectiveness of the Project, and/or in cases of Project restructuring, when the original financing is insufficient for the modified or additional activities. The Bank considers the proposed additional Investment Project Financing on the basis of, as necessary, updated or additional assessments of areas specified in Para 3-9 of this OP. Additional financing financed by IBRD loans, IDA credits or grants and trust-fund-financed grants are submitted for approval by the Executive Directors unless authority for approval of the specific financing source rests with Management.

Disclosure of Information

27. During Investment Project Financing preparation and implementation support and in evaluating after closing, the Bank discloses Investment Project Financing-related information in accordance with the Bank's Access to Information Policy.

ANNEX C. DRAFT BANK PROCEDURES (BP) STATEMENT 10.00—INVESTMENT PROJECT FINANCING

1. The Bank assesses a project proposed by the borrower[1] for Investment Project Financing (hereinafter the "Project") and, upon Investment Project Financing approval, provides implementation support to the borrower in accordance with the requirements set forth in OP 10.00 and this BP.[2]

2. The structure of this BP follows the Project cycle: identification, preparation, appraisal, approval, implementation, and completion. The documentation requirements and decision points differ for Investment Project Financing depending on Project risk and special considerations, including exceptional arrangements in situations of urgent need of assistance or capacity constraints, Projects that are part of a series, financial intermediary financing, and small grants. Additional Financing and restructurings of Investment Project Financing during implementation also have differing documentation requirements and decision points as set out below.

A. Preparation Phase

3. The preparation phase includes identification, assessment, and appraisal of the Project, various interim processing and decision steps, approval, signing, and Investment Project Financing effectiveness.

From Identification through Concept

4. By the end of this stage, the Bank decides whether to proceed with further preparation of an Investment Project Financing.

5. ***Identification Stage.*** At the identification stage, the Bank consults with the borrower on the proposed Project, and seeks to identify the Project's overall parameters, objectives, financing requirements, possible level of Investment Project Financing, and other general information. After the Bank and borrower have reached preliminary understanding on the Project concept and parameters, a decision is made to form a task team and allocate resources for further Project preparation leading to the concept decision point.

6. The Bank preliminarily, and in consultation with the borrower:

(a) identifies the Project and its components and assesses its development objectives (DOs), and assesses its rationale and relation to the relevant country assistance strategy;

(b) identifies the key results expected to be achieved under the Project, overall expected Project expenditures, type of activities and overall implementation arrangements;

(c) estimates the possible scope of Investment Project Financing;

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[1] In this BP, unless the context requires otherwise, references to "borrower" include the borrower or recipient of record and any other entities involved in Project implementation.

[2] BP 10.00 is derived from and accompanies OP 10.00.

(d) proposes, in accordance with OP/BP 4.01, an environmental assessment category for the Project and indicates any other potentially applicable requirements under the Bank's social, environmental, and other policies;

(e) briefly identifies the type of economic rationale and/or analysis appropriate for the Project; and

(f) assesses the main risks to achieving the Project's development objectives and results, taking into account the attendant risks of inaction.

After the Project concept is developed, the Bank prepares documentation to be considered at the concept decision point.

7. ***Concept Decision.*** A decision is made at the concept decision point as to whether the Bank should proceed with the preparation of the Investment Project Financing along with appropriate guidance to teams on the future preparatory work. Decisions are also made on the safeguards classification and scope of safeguards work, the environmental assessment category, and subsequent processing and documentation requirements.

8. Upon the decision to continue with the preparation of the Project, the Bank discloses the Project Information Document (PID) and Integrated Safeguards Data Sheet (ISDS).

Project Preparation Advances

9. Management decides on the provision of a Project Preparation Advance (PPA) from the Project Preparation Facility and on its refinancing on the following basis:

10. Upon a request from the borrower, the Bank prepares documentation to be considered at the decision point for a PPA. Management decides whether to provide the PPA and the amount, subject to the limits set out below. When that decision is taken, the PPA is made in US dollars and carries interest on IBRD fixed spread terms and service charges on IDA credit or IDA grant terms, depending on the country's borrowing status. Payment of interest or service charges, where applicable, is deferred until the PPA is refinanced out of the proceeds of the Investment Project Financing or Development Policy Lending or Program-for-Results Financing, as applicable, or other repayment terms take effect.

11. One or more PPAs may be made for the Project at any stage before the Bank approves the Investment Project Financing, up to an aggregate maximum amount of US$6 million for the Project (or for each Investment Project Financing in a regional Project), with the exception of Projects responding to situations in which the borrower is deemed by the Bank to be in urgent need of assistance because of a natural or man-made disaster or conflict or experiences capacity constraints because of fragility or specific vulnerabilities(including for small states) as described in OP 10.00 and in Section C of this BP, in which case the maximum amount of the PPA is US$10 million for each Project. Management informs the Executive Directors of approved PPAs.

12. When a PPA is not yet refinanced by an Investment Project Financing, Development Policy Lending, or Program-for-Results Financing, the Bank may prepare documentation for

consideration of an extension to the refinancing date. Management decides whether to provide the extension.

13. If a PPA is not refinanced or the refinancing date is not extended and the PPA is required to be repaid, then, upon notice by the Bank, the PPA is repaid by the borrower in ten approximately equal semiannual installments over a five-year period after the refinancing date, unless the borrower elects to repay the full amount up front. If the disbursed amount of the PPA is US$50,000 or less, the PPA borrower is required to repay it within 60 days after receiving the Bank's notice to repay.

Retroactive Financing

14. If requested by the borrower, the Bank may agree to provide retroactive financing under Investment Project Financing. Retroactive financing may be provided when: (a) the activities financed by retroactive financing are related to the DOs and are included in the Project description; (b) the payments are for items procured in accordance with the applicable Bank procurement procedures; (c) the total amount of retroactive financing is 20 percent or less of the Investment Project Financing amount (40 percent for Projects in situations in which the borrower is deemed by the Bank to be in urgent need of assistance because of a natural or man-made disaster or conflict or experiences capacity constraints because of fragility or specific vulnerabilities(including for small states); and (d) the payments are made by the borrower not more than 12 months before the expected date of Investment Project Financing legal agreement signing.

From Concept through Appraisal

15. By the end of this stage, the Bank decides whether to proceed to negotiation with the borrower on the provision of an Investment Project Financing. If decided at the concept stage, the appraisal stage may incorporate a decision point. The Bank (a) works with the borrower as the borrower prepares the proposed Project, and (b) conducts various analyses. The level and nature of expected results and risks, as well as the specific nature of the Project, determine the content, methodology, scope, and depth of the analysis.

16. ***Technical Assessment.*** The Bank assesses the Project technical design or approach, and its appropriateness to the borrower's needs. This work includes consideration of the borrower's organizational and managerial structures and capacity, including for monitoring and evaluation.

17. ***Economic Analysis.*** The Bank undertakes an economic analysis of the Project. The methodology takes into account the guidance provided at concept stage and focuses on quantitative analysis and, where appropriate, on qualitative analysis and contributions. The three key questions that the economic analysis addresses relate to the Project's expected contribution to the country's socioeconomic development, the rationale for the public sector provision, and the value added of the Bank's support. While these key questions are relevant for all analysis, the specifics take into account country circumstances, Project context, alternatives and risks, information and data availability, including existing knowledge on the economic contributions of similar Projects, as well as time constraints.

18. ***Financial Management.*** The financial management assessment considers the degree to which (a) the budgeted expenditures are realistic, prepared with due regard to relevant policies, and executed in an orderly and predictable manner, (b) reasonable records are maintained and financial reports produced and disseminated for decision-making, management, and reporting, (c) adequate funds are available to finance the Project, (d) there are reasonable controls over Project funds, and (e) independent and competent audit arrangements are in place.

19. ***Procurement, Environmental and Social and Other Safeguard Considerations.*** The Bank considers the procurement, environmental and social and other safeguard aspects of the proposed Project in accordance with OP/BP 11.00 (on procurement), and applicable environmental, social and other safeguard policies.

20. ***Fraud and Corruption.*** Investment Project Financing is subject to the Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants (dated October 15, 2006 and revised in January, 2011).

21. ***Risk Assessment.*** The Bank analyses the risks to the achievement of the Project DO.

22. ***Decision.*** For Investment Project Financing for which a decision on authorizing appraisal is required, once most Project design issues have been addressed, a decision is made—taking into account the above analysis and information on any known breaches by the borrower of its obligations to the Bank under existing Bank financed operations—whether to proceed to appraisal.

23. ***Prior to Appraisal.*** The PID and the draft ISDS are disclosed by the Bank prior to appraisal. For Category A Projects (as defined in OP/BP 4.01), the summary of the Environmental and Social Impact Assessment report is provided to Executive Directors before appraisal.

24. ***Appraisal.*** The Bank appraises the Project to confirm any relevant Project and Investment Project Financing information and resolve any outstanding legal, design, and implementation issues. After appraisal, the Bank finalizes the draft Project documentation, including draft legal documentation.

25. Generally, the following information is finalized by the Bank following Project appraisal:

(a) the Project's definition, rationale, DOs, and scope, planned expenditures and their relation to country financing parameters, financing requirements, and implementation and funds flow arrangements;

(b) the results framework and the monitoring and evaluation arrangements;

(c) the economic, financial, financial management, technical, procurement, social and environmental, and risk assessments, and, as necessary, the relevant risk management actions undertaken or to be undertaken;

(d) information regarding proposed Bank financed expenditures that are deemed to raise particular risks (including expenditures for land acquisition, compensation for involuntary resettlement, severance payments, demining, secondhand goods, and compensation for vendors for late payments) to be described in the Project documents along with any related mitigation measures;

(e) the main legal terms and conditions, and disbursement arrangements as set out in a draft Disbursement Letter, including the provisions of the Disbursement Guidelines for Projects;

(f) cofinancing or other collaboration arrangements with other development partners and stakeholders; and

(g) any proposed exceptions to or waivers from Bank policies or procedures.

From Appraisal through Approval

26. At the end of this stage, the Bank makes the decision whether to approve the provision of Investment Project Financing to the borrower.

27. ***Negotiation.*** Management decides to authorize negotiation of the Investment Project Financing, based on the relevant documentation and taking into account information on any known breaches by the borrower of its obligations to the Bank under existing Bank financed operations. After the decision to authorize negotiations (which may be taken at the appraisal decision point), the Bank and borrower conduct the negotiations and seek to finalize agreement on the relevant issues and documentations. If new substantive issues or significant changes in the design of the Investment Project Financing are raised during the negotiations, based on a consideration of these issues, Management decides whether to proceed.

28. ***Approval.*** For Investment Project Financing requiring approval by the Executive Directors, Management informs the Executive Directors when the negotiations have been scheduled and then when they have been completed. After the negotiations, the Bank finalizes the draft Project documents and Management decides on their submission to the Executive Directors. If any information in the Project documents raises issues of confidentiality or sensitivity for the borrower, or may adversely affect relations between the Bank and the borrower, and this information is deemed to be relevant to the Executive Directors in their decision-making process, such information is not included in the project document and is described in the Memorandum of the President. When there are overdue payments to the Bank with respect to other Bank financings to the borrower or financings to or guaranteed by the borrower beyond the number of days that would give the Bank the right to suspend disbursements, Project documents are not submitted to the Executive Directors unless an exception is granted by Management. After all requirements for Board presentation have been met, the Executive Directors decide on the approval of the proposed Investment Project Financing, following regular or streamlined procedures.

29. Management decides on the approval of Investment Project Financings that do not require approval by the Executive Directors.

From Approval through Effectiveness

30. By the end of this stage, Management decides whether to proceed to Investment Project Financing implementation.

31. ***Signing.*** After approval of the Investment Project Financing, the Bank arranges for signing of the relevant legal documents as soon as the relevant signing requirements are met. For Investment Project Financings approved by the Executive Directors, Management informs the Executive Directors when the signing has taken place, or when signing has been delayed for more than six months following the approval. If the legal documents are not signed 18 months following approval, the Bank normally withdraws the offer of the Investment Project Financing; however in certain circumstances Management may decide to provide the borrower with additional time to sign. If the offer of the Investment Project Financing is withdrawn, the Executive Directors are informed through regular operational reporting.

32. ***Effectiveness.*** The legal agreements terminate if the conditions for their effectiveness, if any, are not met by the date specified in the agreements, normally 90 days after signing. When warranted, Management may decide to extend the effectiveness deadline; normally the deadline is not extended beyond 18 months after the Investment Project Financing approval. When the effectiveness deadline is extended, dated covenants whose dates fall before the new effectiveness deadline become additional conditions of effectiveness. Any decision by Management to declare the legal agreement(s) effective or to extend the effectiveness deadline is taken before the expiration of the effectiveness deadline. However, in exceptional circumstances, if the legal agreement(s) have terminated for failure to become effective by the effectiveness deadline, Management may decide to retroactively reinstate such agreement(s).

33. ***Informing the Executive Directors.*** For Investment Project Financing approved by the Executive Directors, Management informs the Executive Directors as part of regular operational reporting of the following: (a) the effectiveness deadlines; (b) effectiveness delays of more than nine months after approval by the Executive Directors; (c) legal agreements that terminate for failure to become effective; and (d) terminated legal agreements that are reinstated by Management.

34. ***Changes in Conditions Prior to Signing or Effectiveness.*** If prior to signing or effectiveness, the conditions under which the Investment Project Financing was originally approved change substantially, the legal agreement(s) are not signed or declared effective until the Bank and the borrower agree on the necessary changes to respond to the new conditions. Management or the Executive Directors decide on the approval of such changes in accordance with the restructuring requirements set out below. After such decision, the legal agreement(s) are amended, as necessary, to reflect the new agreement(s) with the borrower, guarantor, and other parties involved.

B. Implementation Support and Monitoring

35. After the Bank declares the legal agreement(s) to be effective, the borrower carries out its Project implementation, with Bank implementation support and monitoring that continue up to the completion of the Project.

36. ***Borrower's Role.*** The borrower is responsible for implementing the Project, monitoring its progress, evaluating results on completion, and meeting the relevant contractual obligations set out or referred to in the Investment Project Financing legal agreement(s) with the Bank. Unless otherwise agreed by the Bank, the borrower submits annual audited Project financial statements six months after the close of the borrower's financial year and unaudited interim financial reports. Audits need to be carried out by auditors with independence and capacity acceptable to the Bank, under terms of reference acceptable to the Bank.

37. ***Bank's Role.*** In providing implementation support, the Bank pays particular attention to reviewing the monitoring of the performance of the Project and the borrower's compliance with its contractual undertakings. The Bank periodically assesses the Project, and reviews the monitoring of results, risks, and implementation status, updating Project information and identifying follow-up actions needed as appropriate. The Bank monitors the timeliness of the receipt of the annual audited financial statements and audit reports and reviews their content and quality.

38. ***Disbursements and Suspension of Disbursements.*** After the legal agreement(s) have been declared effective, the Bank disburses the proceeds of the Investment Project Financing in accordance with the terms and conditions set out in the legal agreement(s) and in the Disbursement Letter. If the Bank decides to suspend disbursements, items whose exemption is, in the Bank's judgment, in the interest of the Project, including items whose exemption will minimize delays and cost in the event that the suspension is lifted, or permit an orderly termination of the Project, may be exempted from suspension. Special commitments to third parties that the Bank has entered into at the borrower's request are always exempted.

39. ***Cancellation.*** The borrower or the Bank may decide to cancel an amount of Investment Project Financing. When the borrower decides to cancel an amount of Investment Project Financing in accordance with the terms of the legal agreement(s), and gives notice to the Bank, the cancellation is effective as of the date of receipt of the request. The Bank does not accept requests for retroactive cancellations.

40. If the Bank cancels an amount of Investment Project Financing in accordance with the terms of the legal agreement(s), it notifies the borrower, and provides a revised withdrawal schedule. The cancellation is effective as of the date of the notice, except in the case of cancellation of the remaining balance of Investment Project Financing after the closing date. The cancellation of an amount of Investment Project Financing is reflected in the amortization of the financing; the canceled amount is normally prorated to the remaining Investment Financing principal maturities. For Projects cofinanced by other lenders, the Bank follows internal procedures concerning communications with cofinanciers on any proposed cancellation. Except in the case of cancellation of the remaining balance of Investment Project Financing after the closing date, the cancellation of any amount of Investment Project Financing constitutes a restructuring of the Project.

41. ***Restructuring.*** If the borrower proposes changes to the Investment Project Financing, the Bank determines if this is a Level One or Level Two restructuring, as defined in OP 10.00 and prepares the documentation accordingly. The documentation describes the rationale for the proposed restructuring, and the analysis of associated benefits and risks. Executive Directors or

Management decide on the restructuring approval as appropriate. Restructurings take effect through amendments to the legal agreement(s) or, if so established in the original legal agreement(s), by written notices to the borrower. A list of all approved restructurings is included in regular operational reporting to the Executive Directors. All restructurings are taken into account in conducting self- and independent evaluation.

From Implementation to Closing

42. During Project implementation, the Bank monitors the approach of the closing date of the Investment Project Financing and works with the borrower to ensure that closing procedures as set out below are followed. After completion, the Bank prepares a report evaluating the performance of the Project.

43. ***Extension of Closing Date.*** Upon a request from the borrower, the Bank may decide to extend the closing date if the Project DOs remain achievable, and the Bank and the borrower agree on actions that will be undertaken by the borrower to complete the Project. The Bank processes the extension as a restructuring.

44. ***Withdrawals after the Closing Date.*** The Bank may decide, without formally extending the closing date, to disburse or approve the use of proceeds of Investment Project Financing for withdrawal applications received within four months after the closing date for payments made or payments due for eligible expenditures prior to the closing date. In exceptional cases and upon the borrower's request, the Bank may decide to extend the period for receipt of such withdrawal applications. In addition the Bank may decide to finance out of the proceeds of the Investment Project Financing the cost of a final audit that will be completed after the closing date.

45. ***Closing the Investment Financing Account.*** The Bank closes the Investment Project Financing account within two months after the deadline set by the Bank for receipt of withdrawal applications or, if no such additional period is granted, within two months after the closing date. Any undisbursed balance of the Investment Project Financing is cancelled. The Bank notifies the borrower of the final disbursement position.

46. ***Investment Project Financings under Suspension of Disbursements.*** If a suspension of disbursements is in effect on the closing date, any Investment Project Financing balance is normally canceled and the Investment Project Financing account is closed. In exceptional cases, Management may decide to authorize a delay in canceling the Investment Project Financing balance and closing the Investment Project Financing account if suspension is likely to be lifted imminently and Project and/or country circumstances warrant such a delay. Once the Bank decides to lift the suspension, Management may decide to approve an extension of the closing date in accordance with the procedures set out above.

47. ***Investment Project Completion Report.*** After the completion of the Project, or in certain cases of additional financing (as described in paragraph 54 of this BP) or in certain cases of series of projects, prior to the Project completion, the Bank prepares an Implementation Completion and Results report (ICR). The ICR covers, among other things, the degree to which the Project DOs and results have been achieved and the overall Project performance, taking into consideration the Project operating environment. The ICR incorporates the borrower's

evaluation of the Project, as well as of its own performance and the performance of the Bank, if available. Management decides on the submission of the ICR to the Executive Directors, normally within six months of Project completion, and can decide to authorize an extension for the completion of the ICR and its submission to Executive Directors.

C. Projects with Special Considerations

48. ***Exceptional Arrangements in Situations of Urgent Need of Assistance or Capacity Constraints.*** The borrower may request the use of exceptional arrangements for an Investment Project Financing set out in OP 10.00, paragraph 11. If Management determines that the borrower is eligible for such arrangements, the following provisions apply:

(a) when compliance with the environmental and social requirements is permitted to be deferred to the Project implementation stage, Project documents include an action plan addressing the application of environmental and social policies.

(b) when exceptional alternative legal and operational implementation arrangements are used, Project documentation sets out the relevant capacity-building measures planned for timely transfer of implementation activities to the borrower; and

(c) the normally sequential stages of identification, preparation and appraisal may be consolidated; and the decision to authorize negotiation may be taken after a single consolidated review of a complete negotiations package.

49. ***Series of Projects***. In cases of single-borrower sequential Projects, in addition to regular requirements, the documentation for the first Project presents the rationale for a phased approach, the potential benefits and risks of such an approach, the overarching DOs for the series, overall expected results, and timeline for expected completion of each phase and the series; it also gives an indicative funding envelope for the entire series. Subsequently, each Project in the series is prepared and appraised individually, taking into account the performance of the preceding Project(s) to date.

50. After the approval by Executive Directors of the first Investment Project Financing in a series to a single borrower, Management decides whether subsequent Investment Project Financing is submitted for approval by the Executive Directors under regular or streamlined procedures, or is submitted to the Executive Directors for approval under Absence-of-Objection procedures. A subsequent Investment Project Financing is submitted for decision for approval by Executive Directors under regular or streamlined procedures if it involves a modification of the development objectives for the series, a change in safeguard category—from a lesser category to a Category A or the trigger of a safeguard policy not triggered by a previous Project in the series—or if the previous project underwent a Level 1 restructuring.

51. In the case of a multi-borrower series of Projects following a similar Project template, the first Investment Project Financing in the series sets out the rationale for the series, an indicative funding envelope, and the standard design features, with the program documentation for the first Investment Project Financing providing the general template for subsequent Projects. After approval by Executive Directors of the initial Investment Project Financing, all subsequent

Investment Project Financings that follow the Project template are submitted to Executive Directors for decision for approval under Absence of Objection procedures.

52. ***Financial Intermediary Financing.*** If Investment Project Financing is proposed to be made to a financial intermediary, at the concept review a decision is taken on the appropriateness of such financing, taking into consideration the availability and appropriateness of alternative sources of financing.

53. ***Small Projects.*** For a Project financed by the Bank through a borrower-executed grant of less than US$5 million, the Bank follows simplified procedures set out in internal processing arrangements, requiring simplified assessments and risk analysis, streamlined procedures from appraisal through approval, and streamlined ex-post evaluation.

D. Additional Financing

54. When additional financing is requested by the borrower during implementation of a Project, the Bank follows normal Investment Project Financing procedures with the following exceptions. Management decides on proceeding with preparation on the basis of documentation justifying the need for additional financing and summarizing the implementation record and results to date. The Bank prepares documentation for additional financing, including an updated appraisal-stage PID and ISDS (covering the original Project and the new activities) for a decision point on appraisal and negotiation. Additional financing is provided through an amendment to the original legal agreement and/or a new legal agreement. The relevant legal agreement(s) are signed before the closing date of the original Investment Project Financing. The ICR for the original Investment Project Financing covers the original Project and additional financings. When an additional financing request is expected to result in an overall Project implementation period that would exceed ten years, an ICR is prepared before Management's decision on appraisal and negotiation of such additional financing and a supplemental ICR is prepared upon the full Project completion, provided however that if the additional financing is solely to address a financing gap or cost overrun, Management may decide to have a single ICR prepared upon the full Project completion.

ANNEX D. DISPOSITION OF EXISTING INVESTMENT LENDING (IL) OPS, BPS: SUMMARY

Content Retained Completely or in Part (with rewording for clarity & brevity)		*Some Content Removed/ Already in General Conditions*	*Some Content that Goes Beyond IL to OM*	*Some Content Moved to Processing Steps and Guidance or Archived*	*Content Missing and Added to Draft Single OP/BP*
OP	***BP***				
OP 6.00 Bank Financing	OP/BP 6.00 Bank Financing	BP 6.00 Bank Financing	OP 8.00 Rapid Response to Crises and Emergencies	OMS 2.20 (Note: not an Operational Policy)	Bank's role in operational assessment; supporting Bank practice on appraisal and analytic requirements
OP 8.00, Rapid Response to Crises and Emergencies	BP 8.00 Rapid Response to Crises and Emergencies	OP/BP 12.00 Disbursement	OP 8.40 TA	OP/BP 6.00 Bank Financing	Incorporation of fragility and specific vulnerabilities, including small states under special considerations
OP/BP 8.10, PPF	OP/BP 8.10 PPFs	OP 13.00 Signing and Effectiveness	BP 14.40	BP 8.00 Rapid Response to Crises and Emergencies	Adding the possibility of using a PPA in preparing PforR Financing
OP 8.30 FILs	OP 8.30 Financial Intermediary Lending	OP 13.30 Closing Dates		OP/BP 8.10, Project Preparation Facility	Statement that IL financed by grants is covered by the single IL policy
Current OP 10.00 IL	BP 10.02 FM	OP 13.40 Suspension of Disbursements		OP/BP 8.30 FILs	Special considerations for FILs in draft BP
OP 10.02 FM	BP 12.00 Disbursement	OP 13.50 Cancellations		OP/BP 8.40 TA	Statement on fraud and corruption
OP 10.04 Economic Evaluation	OP 13.00 Signing and Effectiveness			Current OP/BP 10.00 IL	Listing of questions for economic analysis; planning of analysis advanced
OP 12.00 Disbursement	BP 13.20 AF			OP/BP 10.02 FM	Cross-referencing of Project legal agreement and Disbursement Letter
OP 13.00 Signing and Effectiveness	OP/BP 13.30 Closing Dates			OP/BP 10.04 Economic Evaluation	Policy and procedure statements on restructurings
OP 13.05 Project Supervision	OP 13.40 Suspension of Disbursements			OP/BP 12.00 Disbursement	Inclusion of treatment of cost savings under restructuring;
OP 13.20 AF	OP/BP 13.50 Cancellations			OP/BP 13.00 Signing and Effectiveness	Statement that cancellation prior to the closing date constitutes a restructuring
OP 13.30 Closing Dates	OP 13.55 ICR			OP/BP 13.05 Project Supervision	Treatment of extension of closing date as a restructuring
OP 13.40 Suspens. of Disb.	BP 14.40			BP 13.20 AF	Lifting of three-year restriction on AF
OP 13.55 ICR				OP/BP 13.25 Use of Project Cost Savings	Broad, unified section on recourse, remedies, and sanctions
OP 13.60, Monitoring and Evaluation				OP/BP 13.30 Closing Dates	
				OP/BP 13.40 Suspension of Disbursements	
				OP/BP 13.50 Cancellation	
				BP 13.55 ICR	

ANNEX E. DRAFT CONSOLIDATED OPERATIONAL POLICY (OP) FOR INVESTMENT PROJECT FINANCING: DISPOSITION OF EXISTING INVESTMENT LENDING POLICY STATEMENTS[1]

Current OP	*Retained (with rewording where necessary for clarity and brevity)*	*Moved to Bank Procedure (with rewording where necessary for clarity and brevity)*	*Archived*	*Missing—and Added*
OMS 2.20 Project Appraisal (Note—not an Operational Policy Statement or Bank Procedure Statement)			Predates the modern concept of binding OPs; it is far too long and not true policy: a mixture of policy direction, guidance, and good advice; overlaps and is inconsistent with existing BP 10.00 on appraisal. It does not provide clear direction to staff; archived—see next column.	Clear, concise statement of the Bank's role and responsibilities in operational assessment, now included in the draft OP, paragraphs 3-9; Bank practice on appraisal, now included in the draft BP, paragraphs 23 and 24.
OP 6.00 Bank Financing	Guiding principles in paragraph 1 and first sentence of paragraph 2 incorporated in draft OP, paragraph 2. Footnote 1 has been reformulated and in the draft OP as Footnote 1.	Paragraph 2 (e) and Footnote 3 on retroactive financing, clauses (a)-(d) incorporated in draft BP, paragraph 21.	The remainder is advisory; archived and moved to guidance.	
OP 8.00 Rapid Response to Crisis and Emergencies	Paragraphs 1, most of 2, 36, and 11 go beyond IL; in the interim to be retained outside IL policy in updated OP 8.00 until overall Operational Manual reform. Remaining paragraphs consolidated and included in the draft OP, paragraphs 11-12 under special considerations.			Incorporation of fragility and specific vulnerabilities, including small states, along with crises and emergencies under special considerations.
OP 8.10 Project Preparation Facility	Paragraphs 1, 2, parts of 3-5 and 8 slightly rewritten incorporated in draft OP, paragraphs 16-17.	Parts of paragraphs 3, 4, and 8 moved to draft BP, paragraphs 9-13 (including raising the ceilings on limits for individual PPAs to US$6 million normally and US$10 million in cases of crises, emergencies, and fragility).	Remainder covered in the Standard Conditions for all PPAs.	Adding preparatory activities for operations to be financed by Program-for-Results Financing as a possible use. Parts of BP 8.10 more appropriate for OP, notably the special authority for Management approval of PPAs and ED authority over the commitment ceiling for the PPF and the maximum amount of individual PPAs. Included in draft OP, paragraph 15.

[1] IL policy reform does not cover safeguard and procurement policies.

Current OP	*Retained (with rewording where necessary for clarity and brevity)*	*Moved to Bank Procedure (with rewording where necessary for clarity and brevity)*	*Archived*	*Missing—and Added*
OP 8.30 Financial Intermediary Lending	The draft OP includes in paragraph 15, under special considerations, those considerations covering lending to financial intermediaries, notably highlighting that specific elements of procurement and safeguard policies are applicable to these projects.	Appropriateness of such financing addressed in the draft single BP. paragraph 52.	This OP was designed for a different world, notably predating, for example, the Financial Services Advisory Program and the general modernization of financial intermediation in IBRD and IDA recipient countries. Currently, there are very few IL operations directly supporting financial intermediaries (an average of six FILs per year since FY06). Appropriately, the IFC now generally provides this type of support without a government guarantee. Archived and moved internal processing arrangements (including those specifically for Project including financial intermediary lending) and staff guidance (particularly concerning to techniques of economic and financial analysis of loans to financial intermediaries).	
OP 8.40 Technical Assistance	Paragraphs 5-7 not relevant for IL and retained outside the draft OP.		TA already a routine use of IL and, as such, is covered under draft OP. Except for paragraphs 5-7, remainder archived with relevant parts updated and moved to staff guidance.	
OP 10 IL: Identification to Board Presentation	Key general principles from paragraph 1, 2 and from paragraph 3 incorporated in draft OP, paragraph 1	Principles also incorporated into BP paragraph 5.	Remainder archived.	
OP 10.02 Financial Management	Key elements of paragraphs 1, 2, 4, 5 incorporated in draft OP, paragraphs 6, 18, 19, 23 and, 25.	Paragraph 3 moved to draft BP paragraph 36		
OP 10.04 Economic Evaluation of Investment Operations	The key element of paragraph 1 (the requirement for economic evaluation) retained in paragraph 5 of the draft OP.		Policy as it is currently written to be archived, with major elements moved to staff guidance.	The draft OP draws on recent thinking and permits a wider array of options for economic analysis techniques, appropriate for the wide array of activities currently supported through IL.

Current OP	*Retained (with rewording where necessary for clarity and brevity)*	*Moved to Bank Procedure (with rewording where necessary for clarity and brevity)*	*Archived*	*Missing—and Added*
OP 12.00 Disbursement	Key principle from paragraph 1 retained in draft OP, paragraphs 1, 2 and 6. Paragraph 3, last sentence reworded in draft OP, paragraph 23. Paragraph 4 retained under draft OP paragraph 18 on the recipient's contractual obligations, which include disbursement conditions. Paragraph 13 already covered under OP 8.60, Development Policy Lending, paragraph 18.		The remainder of the current OP is already covered under the General Conditions for Bank support included in operational legal agreements and mandatory Disbursement Guidelines.	
OP 13.00 Signing of Legal Documents and Effectiveness of Loans and Credits	Paragraph 1, condensed and reworded, incorporated in the draft OP, paragraph 21.	Paragraph 4 moved to draft BP, paragraph 31. Paragraph 5 moved to draft BP, paragraph 32.	The remainder is already covered under the General Conditions for Bank support included in operational legal agreements.	
OP 13.05 Project Supervision	Paragraph 1 reworded and in draft OP, paragraph 1, 2 18, 19, and Articles of Agreement. .Paragraph 2, condensed and reworded, is included in draft OP, paragraph 19, second sentence.			Section on restructuring incorporating OpMemo on project restructuring following Board approval on October 22, 2009 of new policy on restructuring (see paragraph 21 of the proposed OP).
OP 13.20 Additional Financing	Paragraph 1, most of paragraph 2, and paragraph 3 rewritten and incorporated into the draft OP, paragraph 26.			Proposed policy change incorporated into draft OP, lifting the three-year limitation for additional financing.
OP 13.25 Use of Project Cost Savings			As envisioned at the time that the new restructuring policy was approved, this policy is to be archived, since cost savings are now covered in the draft OP, paragraph 21 on restructuring.	
OP 13.30 Closing Dates	Much of paragraphs 1, 2, and 6 (notably defining the closing date) incorporated into the draft OP, paragraph 23.	Paragraph 3, simplified and reworded, regarding the conditions for an extension of closing date moved to draft BP, paragraph 43.	The remainder archived; key element already covered by the General Conditions.	

Current OP	*Retained (with rewording where necessary for clarity and brevity)*	*Moved to Bank Procedure (with rewording where necessary for clarity and brevity)*	*Archived*	*Missing—and Added*
OP 13.40 Suspension of Disbursements	Paragraph 2 is reworded and reflected in draft OP, paragraph 25. Paragraph 3 wording on delays in signing in situations of suspension included in draft OP, paragraph 21.	Paragraph 5 reworded and moved to draft BP, paragraph 38.	Rest of the policy is redundant, as it is covered in the General Conditions. Details on processing moved to internal processing arrangements.	Replaced by a broader, unified section on recourse, remedies, and sanctions, paragraph 25 in the draft OP.
OP 13.50 Cancellations		Paragraphs 1 and 2 moved to draft BP, paragraphs 39 and 40.	Remaining provisions are either part of the General Conditions or cover processing and moved to internal processing arrangements.	Replaced by a broader section on recourse, remedies, and sanctions, paragraph 24 in the draft OP.
OP 13.55 Implementation Completion Report	Except for paragraph 2, the entire policy statement, rewritten and condensed, is incorporated into the draft OP, paragraph 24.	Paragraph 2 condensed and moved to draft BP, paragraph 47.		
OP 13.60 **Monitoring and Evaluation**	Paragraph 1 revised and reflected in draft OP paragraph 1, 19. Parts of paragraph 4 are reflected in the draft OP, paragraphs 18 and 19. The remainder goes beyond IL; in the interim to be retained outside IL policy in updated OP 13.60 until overall Operational Manual reform.			

ANNEX F. DRAFT NEW CONSOLIDATED BANK PROCEDURE (BP) FOR INVESTMENT LENDING

DISPOSITION OF EXISTING INVESTMENT LENDING PROCEDURES[1]

Current Bank Procedure Statement	*Retained (with possible rewording for clarity and brevity)*	*Moved to Internal Processing Arrangements/ Guidance*	*Archived*	*Missing and Added*
BP 6.00 Bank Financing	Paragraph 3 and 5 and Annex A rewritten, simplified and clarified, removing internal processing arrangements, included in draft BP, paragraph 25(a) (d). Paragraphs 1, 2, and 4 on country financing parameters to be rewritten, simplified and moved to BP 2.11.	Parts of paragraph 3 and 5 and Annex A covering internal clearances moved to internal processing arrangements, with decisions and any related mitigation measures recorded in the PAD; Parts of paragraph 3 covered in General Conditions (notably taxes and duties);	Some of language on Country Financing Parameters with regard to calculation no longer relevant and to be archived.	Demining added to the list of expenditures deemed to raise particular risk, draft BP paragraph 24 (d).
BP 8.00 Rapid Response to Crises and Emergencies	Paragraph 4 included in draft BP, paragraph 48 (e). Paragraph 7 clarified and rewritten in draft BP, paragraph 48. Paragraph 5 covered under BP paragraphs 24 and 27.	Paragraphs 1-3, 7 (e), 8, and 9 cover internal steps; moved to internal processing arrangements.		
BP 8.10 Project Preparation Facility	Parts of paragraph 1 moved to draft OP, paragraph 16. Paragraph revised and in draft BP paragraph 12 and 13	Paragraphs 2-7 on processing steps moved to internal processing arrangements.		
BP 8.30 Financial Intermediary Lending		Content updated as staff guidance, notably for economic analysis of Bank support to financial intermediaries.	Archived.	Draft BP sets out special considerations for Financial Intermediary Financing in paragraph 52.
BP 8.40 Technical Assistance		Some portions of the sections on design, supervision, and documentation moved to staff guidance.	Archived.	
BP 10.00 Investment Lending: Identification to Board Presentation		Detailed processing provisions—outdated in current BP—updated and moved to internal processing arrangements.	Archived and replaced by draft BP10.00.	Missing: the spelling out of the basic analytic requirements—technical, economic, financial management, procurement, social, environmental and risk—included in draft BP, paragraphs 15-19 and 21.

[1] IL reform does not cover safeguard and procurement policies and procedures.

Current Bank Procedure Statement	*Retained (with possible rewording for clarity and brevity)*	*Moved to Internal Processing Arrangements/ Guidance*	*Archived*	*Missing and Added*
BP 10.02 Financial Management	Preparation elements reworded to remove internal processing arrangements and included in draft BP, paragraph 18 and paragraph 36. Annex A replaced with broader procedures for handling breaches in compliance with recipient obligations; see draft BP, paragraphs 22 and 27.	Processing provisions moved to internal processing arrangements.		Missing: statement that Investment Project Financing is subject to the Guidelines on Preventing and combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants—draft BP, paragraph 19.
BP 10.04 Economic Evaluation of Investment Operations		Staff guidance will provide instructions on carrying out economic analysis across types of activities supported and examples of good practice.	Archived and replaced—see draft BP, paragraph 17.	
BP 12.00 Disbursement	The essence of paragraph 3 included in draft BP, paragraph 25 (e).	All of the content on internal steps moved to internal processing arrangements.	The rest of the BP duplicative of the General Conditions, the Disbursement Letter for the Investment Financing, and binding Disbursement Guidelines and, therefore, archived.	Section in draft BP, paragraph 37, cross referencing Project legal agreement and Disbursement Letter.
BP 13.00 Signing of Legal Documents and Effectiveness of Loans and Credits	Essence of paragraph 7 is included in draft BP, paragraph 31; paragraph 13, 15, 16, 17-20 have been revised slightly and included in draft BP paragraphs 31, 32, 33 and 34.	Current BP covers internal steps rather than procedures; updated and moved to internal processing arrangements.	Archived.	
BP 13.05 Project Supervision	Paragraph 1 retained with slight rewording to remove internal processing arrangements; see paragraph 37 of the draft BP; Paragraphs 2(a)-(c) and 3 reworded and found in draft BP paragraphs 18 and 25. Paragraph 9 revised and found in draft BP paragraph 37.	Internal steps and guidance content moved to internal processing arrangements and staff guidance.	Archived.	Procedures for restructurings, based on OpMemo, Project Restructuring: New Procedures, November 18, 2009; see paragraph 40 of draft BP.
BP 13.20 Additional Financing for Investment Lending	Retained with slight rewording to remove internal processing arrangements; see paragraph 54 of the draft BP.	Components that cover internal processes and not procedure moved to internal processing arrangements.		
BP 13.25 Use of Project Cost Savings			Archived as envisioned at the time of the approval of the policy on restructuring.	

Current Bank Procedure Statement	***Retained (with possible rewording for clarity and brevity)***	***Moved to Internal Processing Arrangements/ Guidance***	***Archived***	***Missing and Added***
BP 13.30 Closing Dates	Paragraphs 2-5 and 8-9, rewritten to remove internal processing instructions, included in draft BP, paragraphs 43 -46.	Remainder of the current BP moved to internal processing arrangements and staff guidance.		Paragraph linking extension of the closing date to practice on restructuring, since a closing date extension is now covered under restructuring policy (see paragraph 41 of the draft single IL BP).
BP 13.40 Suspension of Disbursements		Content is entirely internal process and not procedure; moved to internal processing arrangements.	Archived	
BP 13.50 Cancellations	Paragraphs 1-2, 5-6 and 8 retained in single IL BP, reworded to remove internal arrangements; see paragraph 39 and40 of the draft BP.	Paragraphs 3-4 and 7 moved to internal processing arrangements and staff guidance.		Statement noting that cancellation prior to the closing date constitutes a restructuring; see paragraph 39 of the draft BP.
BP 13.55 Implementation Completion Reporting	Paragraph 3 has been reformulated and in draft BP paragraph 47.	Current content covers internal processes and does not contain procedural content; moved to internal processing arrangements.	Archived.	
BP 14.40, Trust Funds	Elements of paragraphs 9 and 10 have been incorporated into the draft OP, paragraphs 7 and 11(d) and BP 19 and 53. The remainder goes beyond IL; in the interim to be retained outside IL policy in updated OP 13.60 until overall Operational Manual reform.			

ANNEX G. DRAFT NEW CONSOLIDATED OPERATIONAL POLICY (OP) AND BANK PROCEDURE (BP) FOR INVESTMENT LENDING: DISPOSITION OF EXISTING OPERATIONAL MEMORANDA

Current OpMemo	*Incorporated into Draft OP*	*Incorporated into Draft BP*	*Moved to Internal Processing Arrangements/ Archived/Not Relevant for Investment Financing OP or BP*	*Missing—to be Added*
Placing Bank Loans in Non-Performing Status and Restoring Loans to Performing Status			The content covers internal processes and will be incorporated into internal processing arrangements covering Investment Project Financing.	
Tracking and Recovery of Cash Refunds arising from Ineligible Expenditure			The content covers internal processes and will be incorporated into internal processing arrangements covering Investment Project Financing.	
Project Restructuring: New Procedures (Revised)	Paragraph 2 and section of paragraph 4 on cost savings incorporated into draft OP (without content dealing with internal processing arrangements); see draft OP, paragraph 22.	Paragraph 3 incorporated into draft BP (without content dealing with internal processing arrangements); see draft BP, paragraph 41.	Paragraphs 1 (informing staff of Board approval of the change in policy) and 5 (noting that the OpMemo would be incorporated into the overall IL policy framework as part of IL reform) archived.	
Specific Expenditure Eligibility and Cost Sharing Requirements for Investment Projects in Countries Without Approved Country Financing Parameters			Archived. (See comments on disposition of BP 6.00, Bank Financing.)	
Retroactive Extensions of Closing Dates: Approval Authority			Archived—treats internal processes; to be incorporated into internal processing arrangements for Investment Financing.	
Demining--Operational Guidelines for Financing Land Mine Clearance		Covered under paragraph 25 (d) of the draft BP.		
Treatment of Environmental Externalities in the Evaluation of Investment Projects			Archived and replaced by staff guidance on carrying out the economic analysis required under draft OP.	

Current OpMemo	*Incorporated into Draft OP*	*Incorporated into Draft BP*	*Moved to Internal Processing Arrangements/ Archived/Not Relevant for Investment Financing OP or BP*	*Missing—to be Added*
Tranching in Loans/Credits for Investment Projects			Archived, although the principle of strongly discouraging tranching in Investment Project Financing will be included in staff guidance.	