

**ENHANCING THE WORLD BANK'S
OPERATIONAL POLICY FRAMEWORK ON
GUARANTEES**

OPERATIONS POLICY AND COUNTRY SERVICES

November 19, 2013

ABBREVIATIONS AND ACRONYMS

BP	Bank Procedure
CAS	Country Assistance Strategy
CODE	Committee on Development Effectiveness
DPF	Development Policy Financing
DPL	Development Policy Lending
FY	Fiscal Year
HIPC	Heavily-Indebted Poor Country
IBRD	International Bank for Reconstruction and Development
ICR	Implementation Completion Report
IDA	International Development Association
IEG	Independent Evaluation Group
IFC	International Finance Corporation
IPF	Investment Project Financing
MDRI	Multilateral Debt Reduction Initiative
MIGA	Multilateral Investment Guarantee Agency
OP	Operational Policy
OPCS	Operational Policy and Country Services
PBG	Policy-Based Partial Credit Guarantees
PCG	Partial Credit Guarantees
PPAs	Project Preparation Advances
PPP	Public Private Partnership
PRG	Partial Risk Guarantees
PforR	Program-for-Results
SOEs	State Owned Enterprises
WBG	World Bank Group

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ENHANCING THE WORLD BANK'S OPERATIONAL POLICY FRAMEWORK ON GUARANTEES

EXECUTIVE SUMMARY

1. **This policy paper seeks Executive Directors' approval of a set of policy changes to enhance the World Bank's operational policy framework on guarantees.** The Bank provides financing through loans and guarantees, but each type of financing is currently subject to different operational policy frameworks. The overall objective of the proposed reform is to support a fuller and more effective use of Bank guarantees in country engagements to leverage Bank resources in delivering critical infrastructure and reform programs to reduce poverty and foster shared prosperity. The proposed reform builds on the Approach Paper discussed with the Committee on Development Effectiveness (CODE) in October 2011¹ but, taking into account feedback received during the public consultation phase, goes a step further by fully integrating the Bank's policy on guarantees with those applicable to Bank loans: specifically, the policies on Investment Project Financing (IPF) and Development Policy Lending (which would be renamed Development Policy Financing (DPF) following approval of the proposed reforms).

2. **Why is reform needed?** There are several reasons behind Management's initiative to enhance the operational policy framework for Bank guarantees, including the following:

- **Bank guarantees can help member countries mobilize private resources, but they are underused, partly due to policy constraints.** Member countries' financing needs are large and growing. With the prospect that quantitative easing would be gradually withdrawn in high income countries, tightening conditions for developing economies can be expected. Even for member countries that made positive strides in market access, keeping the inflow of private financing steadily growing to support development is a challenge. Over the past decade, through IDA partial risk guarantees, a US\$1 of IDA commitment leveraged, on average, almost US\$6 of private capital and US\$9 of total project financing. Management and IEG² concluded that Bank guarantees have not been used to their full potential. Among the obstacles identified are limitations in access, policy constraints and gaps that lead to a perceived lack of clarity and added complexity by staff and member countries. Over the last years, Executive Directors approved several waivers to policy in the same direction as the key proposed policy changes, highlighting that policy constraints are binding.
- **Bank guarantees provide a way to leverage resources when the scale and cost of transformational projects and programs would otherwise constrain the Bank's participation.** As the economies of member countries have expanded, the scale and

¹ Modernizing the World Bank's Operational Policy on Guarantees: Approach Paper (2011)

² Independent Evaluation Group, *The World Bank Group Guarantee Instruments 1990-2007: An Independent Evaluation*, Washington, DC, 2009.

financing requirements of identified projects and programs have risen. With the Bank's increasing capital constraints, limited Bank financing at the country level is preventing the Bank from participating in certain high cost projects and programs that may be transformational and can have a significant impact on poverty reduction and shared prosperity. Often, this type of high profile engagement can also help the Bank to acquire knowledge that can be later transmitted to engagements in other countries. The Bank's participation can also help investments and reforms to be more aligned with global and country level poverty reduction and shared prosperity objectives. In some circumstances, Bank guarantees could enable the Bank to participate in critical projects and programs. However, a more accessible and flexible guarantee policy framework, among other reforms, would be necessary.

- **The proposed Bank guarantees reform is part of Management efforts aimed at enabling the leverage of World Bank Group (WBG) resources and synergies.** More flexible and accessible Bank guarantees would help the WBG (IBRD/IDA, IFC and MIGA) to work together more effectively, tackling clients' needs and catalyzing private sector participation in pursuing member countries' objectives. As such, the proposed reform is supportive of the themes of both the World Bank Group Corporate Strategy and IDA 17. A first step was taken through the approval on June 26, 2012 of the World Bank Performance Standards for financing of projects that are owned, constructed, and/or operated by the private sector (e.g., for partial risk guarantees), in place of the World Bank environmental and social safeguards policies.³ The dual system of Bank safeguards policies and IFC/MIGA Performance Standards was a significant drag to joint WBG support to Public-Private Partnerships (PPPs).

3. **There are five broad features of this reform.** *First*, opening access to all IDA members to all types of Bank guarantees under certain fiscal considerations. *Second*, lifting undue limitations on the use of Bank guarantees. *Third*, fully incorporating Bank guarantees into IPF and DPF. Bank guarantees are currently viewed as a separate instrument. However, Bank guarantees can be viewed as an alternative financing modality to Bank loans since the underlying projects or policy and institutional reforms for which the Bank provides guarantees are substantially similar to those supported by Bank loans under IPF and DPF. Incorporating Bank guarantees into IPF and DPF operational policies would enhance the visibility of this form of financing, facilitate use by Bank teams and demand from client countries, and lift various constraints that arise from having separate policies. *Fourth*, clarifying aspects of the policy framework that were perceived as gaps or unclear, and were inhibiting the use of this form of financing. And *fifth*, modernizing Bank guarantee policy in certain respects to help ensure that the Bank's guarantee products offer the flexibility necessary to meet the changing and future needs of member countries.

4. **Policy changes.** The specific policy changes proposed for Executive Directors' consideration are set forth in Chapter III of this policy paper and are summarized in Annex 1. In addition to these proposed policy changes, Management has made a number

³ Proposed Adoption and Application of World Bank Performance Standards for Private Sector Projects Supported by IBRD/IDA, June 4, 2012 (approved by Executive Directors on June 26, 2012)

of clarifications to the Bank's policy on Bank guarantees that do not constitute policy changes. Yet they remedy perceived gaps (and/or unclear provisions) by staff in the existing policy framework. These are set forth in Chapter IV of this policy paper and are also summarized in Annex 1.

5. **Updates of relevant OP/BPs.** Upon approval by the Executive Directors of the above policy changes, existing OP/BP 14.25, *Guarantees*, will be retired, and OP/BP 8.60, *Development Policy Lending* (to be renamed *Development Policy Financing*), and OP/BP 10.00, *Investment Project Financing*, will be revised so as to unify under one policy framework, the Bank's different products (i.e., loans, credits, grants and guarantees) and incorporate the policy proposals and clarifications discussed in this paper. In addition, revisions will be made to OP/BP 3.10, *Financial Terms and Conditions of IBRD Loans, IBRD Hedging Products, and IDA Credits* (to be renamed *Financial Terms and Conditions of Bank Products*), to incorporate the financial terms and conditions of Bank guarantees; and OP 7.00, *Lending Operations: Choice of Borrower and Contractual Agreements* (to be renamed *Bank Loans and Bank Guarantees: Contractual Arrangements*), to incorporate certain legal aspects relating to Bank guarantees previously covered in OP14.25. The proposed policy reforms and expansion will also require certain adjustments to other policy statements, including the Procurement Guidelines, the Consultant Guidelines, and the Anti-Corruption Guidelines and sanctions procedures applicable to Bank guarantee projects, which will be made following approval of the policy proposals. Finally, the affected OP/BPs will be updated to capture the policy (and related procedural) content of Bank guarantee policies approved by the Executive Directors since 2002 which were not captured in OP/BP 14.25. A draft revised OP/BP 8.60 and 10.00, together with a draft excerpt of the proposed enclave and guarantee provisions to be reflected in OP 3.10, are attached for the Executive Directors' information in Annexes 2 and 3 to this paper, respectively. A table with draft language showing changes necessary to the Procurement Guidelines, the Consultant Guidelines and to the Anti-Corruption Guidelines applicable to Bank guarantees, is attached in Annex 4.

MODERNIZING THE WORLD BANK'S OPERATIONAL POLICY ON GUARANTEES

POLICY PAPER

I. INTRODUCTION AND MOTIVATION

1. **Management proposes a set of reforms to the World Bank's operational policy on Bank guarantees.** Bank guarantees can help member countries mobilize private financing for development purposes. This is particularly critical at a time when member countries' financing needs are large (and growing), capital markets remain volatile, and constraints on the Bank's capital are becoming binding. Yet both Management and IEG¹ have concluded that Bank guarantees, while effective in leveraging Bank resources to mobilize private financing for member countries' projects and budgets, have not been used to their full potential. Among the obstacles identified are operational policy constraints that limit the Bank's ability to respond to changes in the demand for guarantees. Operational policy reforms are also needed in light of new opportunities to mobilize development financing, including in IDA member countries. Internally, the current self-standing guarantee policy and procedures are perceived as unduly restrictive and often as unclear. The reforms proposed are consistent with and supportive of the themes of both the World Bank Group Corporate Strategy and IDA 17.

2. **Bank guarantees can play a critical role in facilitating and maintaining the flow of private financing to member countries.** As quantitative easing may be gradually withdrawn in high income countries, resources for some emerging and developing countries may tighten. Even for member countries that have made positive strides in market access, keeping the inflow of private financing steadily growing to support development projects and programs is a challenge. As overall Bank lending is rapidly becoming a small portion of member countries' financing needs, a more intensive use of Bank guarantees can play a role in enabling private financing and be an element of a broader development financing strategy of member countries. Over the past decade, through IDA partial risk guarantees, a US\$1 of IDA commitment leveraged, on average, almost US\$6 of private capital and US\$9 of total project financing.

3. **A more intensive use of guarantees provides another avenue for the Bank's engagement in projects and programs with significant impact on poverty reduction and shared prosperity.** As the economies of member countries expand, infrastructure financing and budget financing needs also grow. Often this means that the scale and cost of projects and programs rise. Increasingly, Bank resource constraints may prevent the Bank from participating in some critical projects and programs that may be transformational and have high impact on growth and poverty reduction. In some circumstances, Bank guarantees would help to catalyze private financing and enable the Bank to participate in those projects and programs. Often, this type of high profile engagements can also help the Bank to acquire knowledge and experience which can be

¹ Independent Evaluation Group, *The World Bank Group Guarantee Instruments 1990-2007: An Independent Evaluation*, Washington, DC, 2009.

later transmitted to other countries, thereby expanding positive externalities. The Bank's participation can not only help catalyze private financing but can also help ensure that investments and reforms are more aligned with the country and global poverty reduction and shared prosperity objectives.

4. **The proposed Bank guarantees reform is part of a broader Management effort aimed at leveraging WBG resources.** A first step in this regard was taken through the approval by the Executive Directors in 2012, and subsequent introduction of, the use of World Bank Performance Standards for Bank-supported projects that are owned, constructed, and/or operated by the private sector, in place of the World Bank environmental and social safeguards policies.² The dual system of World Bank safeguards policies and IFC/MIGA Performance Standards had been a significant constraint to joint WBG support to Public-Private Partnerships (PPP) and overall to the mobilization of private sector resources for critical infrastructure projects in member countries. More flexible and accessible Bank guarantees would also help the WBG to work together more effectively, tackling clients' needs, and catalyzing private sector participation in pursuing the member countries' objectives.

5. **The proposed reforms build on the Approach Paper discussed with the Committee on Development Effectiveness (CODE) in October 2011.**³ The Approach Paper envisaged a better alignment of project-based and policy-based guarantees with the Bank's core lending instruments and the elimination of certain restrictions. It also called for access of IDA countries to the full spectrum of guarantees, subject to considerations of debt sustainability. The Approach Paper reviewed a large number of policy provisions and outlined potential areas for policy changes. CODE generally supported the outlined approach and welcomed the proposal to engage in external consultations with relevant parties.

6. **This policy paper takes a step further, in line with the feedback received during the consultation phase.** In line with feedback from internal and external consultations (see Box 1), this paper proposes a full incorporation of Bank guarantees as a form of financing under Investment Project Financing (IPF) and Development Policy Lending (the latter will be renamed Development Policy Financing, or DPF hereafter). Full-fledged incorporation of Bank guarantees into the policy on DPF was proposed in the Approach Paper. For project-based guarantees, however, the Approach Paper proposed only to align policy provisions with those for IPF. The IPF consolidation in 2012-2013 provided the opportunity to integrate and fully merge project-based guarantees into IPF. In turn, this will help to harmonize to the fullest extent possible Bank guarantees with Bank loans, reducing restrictions and perceived gaps under the stand-alone Bank guarantee policy.

² See Proposed Adoption and Application of World Bank Performance Standards for Private Sector Projects Supported by IBRD/IDA, June 4, 2012 (approved by Executive Directors on June 26, 2012); and OP 4.03, *Performance Standards for Private Sector Activities*.

³ Modernizing the World Bank's Operational Policy on Guarantees: Approach Paper October 26, 2011.

Box 1: Summary of External Consultations

Subsequent to the CODE discussions on the approach paper, Management conducted external consultations, both web-based and face-to-face (e.g., Johannesburg, London, Paris and Washington DC), with relevant parties including lenders and investors, government and donor agencies, bilateral and multilateral development partners, and non-governmental organizations.

Selected salient items in the feedback received included the following:

- Private lenders and investors stated that they see significant value-added in Bank guarantees; and that there is an untapped demand for this type of support, particularly in lower income countries seeking to improve market access.
- Private sector participants noted that there is a stronger appetite for financing to African countries but with limited tenors, and thus welcomed IDA guarantees as a way to make projects viable with reduced costs and improved maturities.
- Participants indicated that guarantees played an important role by providing a “halo effect” that made them much more valuable than their face value. Commercial banks said they value the presence of the World Bank, even if the institution only provides a guarantee for a portion of the debt.
- Participants welcomed the leveling of the playing field between the requirements for guarantees and those for the equivalent loan products, and strongly encouraged the Bank to do as much as possible in this direction. They also welcomed the introduction of the additional financing concept in guarantees.
- Participants noted the complementarity of guarantees and the Bank’s other instruments in financing projects. It was repeatedly stressed that guarantees should not be viewed as a substitute or separate instrument.
- There was a generalized perception that the internal processing of guarantees in the Bank seemed complicated, including for being in a different operational policy to mainstream lending instruments.
- Participants raised questions about whether the participation of multiple Bank group entities (IDA/IBRD, MIGA, IFC), with different roles, in the same transaction, could create potential conflicts of interest; they also noted under-exploited synergies and challenges in coordinating across different parts of the WBG on one project.
- Participants noted that reforming the policy was just one step. Making the instrument part of the daily work of the Bank will be a greater challenge.
- Participants also stressed the importance of both external and internal outreach for raising the profile and increasing the demand for the instrument.

Subsequent to the CODE discussion of the draft policy paper, the proposed policy was posted for public consultation with no concerns raised.

7. The policy paper is organized in five sections. Following this introduction, Section II provides an overview of Bank guarantees and presents the main parameters of the proposed policy architecture. Section III discusses the specific policy changes proposed for approval by the Executive Directors. Section IV sets out the clarifications to

be introduced by Management which do not constitute policy changes. Section V discusses some of the expected challenges and risks to the implementation of the new policy with regard to the objectives pursued. And Section VI discusses next steps and includes the request for approval by Executive Directors of the proposed policy changes.

II. OVERVIEW OF BANK GUARANTEES AND BROAD PARAMETERS OF THE REFORM

8. **Bank guarantees help countries mobilize private financing by sharing with private lenders the risk of debt service default or the occurrence of other specified risks that may cause a debt service default due to a government or government-owned entity's failure to fulfill its obligations.** Bank guarantees cover risks only to the extent necessary to obtain the required private financing. It is the intent of the existing and proposed policy that Bank guarantees remain partial in nature (less than 100 percent) given that they are aimed at leveraging private financing. All Bank guarantees require a sovereign counter-guarantee and indemnity, comparable to the requirement of a sovereign guarantee for Bank lending to sub-sovereign and non-sovereign borrowers.⁴

9. **The Bank's mandate for providing guarantees is rooted in its Articles of Agreement.** The Bank started issuing guarantees in 1983 for the purpose of attracting private co-financing for Bank-financed projects. In 1994, the Executive Directors approved specific policy provisions for the use of partial risk guarantees (PRGs) and partial credit guarantees (PCGs) for private and public sector projects in IBRD-eligible countries.⁵ PRGs became available for projects in IDA-only countries in 1997 in the form of IBRD guarantees for enclave projects⁶, and IDA PRGs for private sector projects.⁷ Policy-based guarantees (PBGs) were introduced in 1999 for well-performing IBRD borrowers.⁸ In 2002, Management summarized the Bank guarantee policy provisions approved by the Executive Directors since 1994 in an Operational Policy statement (OP 14.25, *Guarantees*) and issued an accompanying Bank Procedures statement (BP 14.25, *Guarantees*).

10. **Bank guarantees are distinct from, but complementary to, MIGA and IFC guarantees in mobilizing private sector financing.** Each WBG institution has a mandate that is defined under its Articles and each serves the needs of its clients according to these mandates. Given that IBRD and IDA clients are first and foremost member countries, Bank guarantees play a different yet complementary role to that of MIGA's and IFC's guarantees (see Figure 1). MIGA provides guarantees in the form of political risk insurance for cross-border direct investments for a wide range of private sector clients. IFC provides credit guarantees for private sector participants as their primary clients. Both MIGA and IFC guarantees do not require an explicit sovereign counter-guarantee. Bank guarantees can also support private sector projects but, as stated

⁴ IBRD Articles of Agreement, Article III, Section 4(i).

⁵ See *Mainstreaming of Guarantees as an Operational Tool* (R94-145), July 14, 1994.

⁶ See *Use of IBRD Guarantees to Support Private Enclave Project in IDA-Only Countries*, (R97-85, IDA/R97-36), April 28, 1997.

⁷ See *A Proposal for IDA Guarantees in IDA-Only Countries* (IDA/R97-135), November 20, 1997.

⁸ See *World Bank Policy-Based Guarantees* (R99-53), April 20, 1999.

earlier, only by backstopping public sector obligations for which the member country is willing to provide an indemnity. One example of natural convergence for WBG support through guarantees comes in the support to PPPs, where IFC loans, MIGA political risk insurance and Bank guarantees have been deployed together. In practice, IFC guarantees are designed in a manner that there is very little overlap with MIGA and Bank guarantees (see section III. A on enhancing WBG synergies and collaboration).

Figure 1: World Bank Group Existing (main) Guarantee/Insurance Products

MIGA	IFC	World Bank
<p>Political Risk Insurance</p> <ul style="list-style-type: none"> • Currency inconvertibility and transfer restrictions • Expropriation • War, terrorism and civil disturbance • Breach of contract • Non-honoring of sovereign financial obligations 	<ul style="list-style-type: none"> • Direct Debt Substitute: credit guarantees (partial, full and credit-linked), risk participations and risk sharing facilities covering credit risk on private borrowers • Commercial Operation: Credit enhancement guarantees and risk sharing facilities covering commercial risks or combination of commercial and credit risks (e.g. guarantees of performance bonds) • Global Trade Finance Program: Coverage of non-payment by banks in the markets for trade-related transactions • Guaranteed Offshore Liquidity Facility: Coverage of currency transfer and convertibility risk • Client Risk Management Guarantees: Coverage of counterparty credit risk on private borrowers in derivatives transactions • B-loan program Implicitly offers risk mitigation similar to MIGA's transfer restriction 	<ul style="list-style-type: none"> • Partial Risk Guarantee Covers lenders against debt service default, normally for a private sector project, caused by a government's failure to meet specific obligations • Partial Credit Guarantee Covers lenders against debt service default, typically in a public sector project • Policy-Based Guarantee Covers lenders against debt service default under a sovereign borrowing made in support of a program of policy and institutional reforms.

11. **Currently the Bank offers three types of guarantees.** PRGs cover private lenders against debt service defaults on loans, normally for a private sector project, when such defaults are caused by a government's failure to meet specific obligations under project contracts to which it is a party. PCGs cover private lenders against debt service defaults on a specified portion of loans, normally for a public sector project, irrespective of the cause of such debt service default. PBGs cover private lenders against debt service defaults under a sovereign borrowing made in support of a program of policy and institutional reforms. At the moment, only PRGs are available to IDA-only countries. Increasingly, however, there has been demand for IDA guarantee structures that include elements of PCGs and PRGs. Furthermore, the Bank's guarantee policy does not address the parameters in respect of guarantees backed by Bank-administered trust funds.

12. **Several of the recent Bank guarantee operations have either required a Board policy waiver or compliance with cumbersome procedures.** The Kribi Gas

Power Project in Cameroon⁹ was an IDA PRG operation that included a PCG-type feature to mobilize private local currency financing necessitating a Board waiver, given that PCGs are currently unavailable to IDA-only countries. The Nigeria Electricity and Gas Improvement Project Additional Financing required a waiver given that additional financing is not available under the current guarantee operational policy. The FYR Macedonia PBG operation¹⁰ and the Montenegro Financial Sector PBG operation¹¹ necessitated the discontinuation of existing programmatic development policy operation series even though the PBGs supported essentially the same set of reforms because the operational policies for guarantees and DPLs are separate. These are some examples that highlight the constraints embedded in current policy and the need for reform.

13. **There are five broad features of this reform.** *First*, opening access to all IDA members to all types of Bank guarantees under certain fiscal considerations. *Second*, lifting undue limitations on the use of Bank guarantees. *Third*, fully incorporating guarantees into IPF and DPF operational policies to enhance the visibility of this form of financing, facilitate use by Bank teams and demand from client countries, and lift various constraints that arise from having separate policies. *Fourth*, clarifying aspects of the policy that were perceived as gaps (i.e., where policy was to some extent unclear to staff) and therefore were inhibiting the use of this form of financing. And *fifth*, modernizing Bank guarantee policy in certain respects to help ensure that the Bank's guarantee products offer the flexibility necessary to meet the changing and future needs of member countries.

14. **The proposed policy reforms will result in the full mainstreaming of Bank guarantees into investment project financing and development policy financing.** Bank guarantees are currently viewed as a product that is distinct from IPF and DPF (see Figure 2). However, Bank guarantees can be viewed as an alternative financing modality to Bank loans, within the IPF and DPF instruments since the underlying projects or policy and institutional reforms for which the Bank provides guarantees are substantially similar to those supported by Bank loans under IPF and DPF.

15. **The proposed policy reforms will also help modernize the Bank guarantee product.** It will do so by revising and/or establishing aspects of Bank guarantee policy to facilitate the Bank's ability to offer guarantees that will work for the future, taking into account the changing and often unpredictable global financial and commercial environment. In the wake of the global financial crisis and with the establishment of new regulatory and prudential frameworks such as Basel III, infrastructure finance markets are seeing new financing structures and investors with different risk-taking capacity and risk sensitivities. In this regard, the reforms propose to go beyond merely updating Bank guarantee policy, towards a flexible guarantee policy architecture that can adjust to future needs of the Bank's member countries.

⁹ Kribi Gas Power Project-Republic of Cameroon (2011). Report No. 53953-CM

¹⁰ Policy Based Guarantee for the Former Yugoslav Republic of Macedonia (2011). Report No. 59914-MK

¹¹ Policy Based Guarantee for the Republic of Montenegro (2012). Report No.66151-ME

Figure 2: World Bank Financing Products

Current policy architecture							Proposed policy architecture		
Instruments							Instruments		
	Investment Project financing	Program-for-results Financing	Development policy lending	Guarantees			Investment Project Financing	Program for Results Financing	Development Policy Financing
Financing mechanism	loans, credits or grants	loans, credits or grants	loans, credits or grants	Partial risk guarantee (PRG)	Partial credit guarantee (PCG)	Policy-based guarantee (PBG)	Loans, credits, grants or guarantees	Loans, credits or grants	Policy-based loans, credits, grants or guarantees
What it supports	Investment projects	Investment and expenditure programs	Policy and institutional reforms	Investment projects	Investment projects	Policy and institutional reforms	Investment projects	Investment and expenditure programs	Policy and institutional reforms
Eligible countries	IBRD, IDA	IBRD, IDA	IBRD, IDA	IBRD, IDA	IBRD	IBRD	IBRD, IDA	IBRD, IDA	IBRD, IDA

III. PROPOSED OPERATIONAL POLICY REFORMS

16. **Integration of policies on Bank guarantees with those on Bank loans under IPF and DPF.** Management proposes that Bank guarantees will no longer be governed by a separate policy framework from the one applicable to loans, but rather as an alternative form of financing within a single policy framework that governs both guarantees and loans. The proposed integration would simplify and streamline the Bank’s overall framework for operational policies and procedures; align and consolidate policies; and remove unnecessary limitations. Policy provisions that vary among PCGs, PRGs and PBGs and across IBRD and IDA countries will be harmonized, while continuing to recognize certain differences. This consolidation would also enhance the visibility of this form of financing and facilitate its use by Bank teams, member countries, and private partners. The ultimate objective is to support the more widespread, more effective use of Bank guarantees in country engagements to leverage more effectively Bank resources in delivering critical infrastructure, other investments and reform programs, and allowing for more streamlined collaboration across the WBG in deployment of guarantees for private and public sector projects.

17. **Specific policy changes.** The proposed policy changes are set out below, and are divided into four parts: (a) policy changes related to project-based guarantees (i.e., PRGs and PCGs); (b) policy changes related to policy-based guarantees (PBGs); (c) policy changes related to all Bank guarantees; and (d) other policy updates and changes needed to better reflect both operational practice and the evolution of the operational policy architecture.

A. Project-Based Guarantees

18. **Guarantees for IDA countries.** Unlike PRGs, PCGs are currently only available to IBRD-eligible countries. The current restrictions limit the Bank’s opportunities to help IDA countries mobilize financing for critical development needs. Management proposes to make all forms of guarantees available to all IDA countries, except for countries under

certain fiscal/debt distress risk. Considerations of fiscal sustainability are particularly important for IDA-only countries given their relatively limited experience with commercial sovereign borrowing and vulnerability to shocks. Thus, Management proposes that access to PCGs be limited to IDA countries with low or moderate risk of debt distress; however, on an exceptional basis, the Bank may consider providing a PCG to projects in other IDA countries. Furthermore, commercial debt owed by governments and guaranteed by IDA in support of public sector projects must comply with Bank policies relating to non-concessional borrowing. Since IDA's Articles of Agreement provide that IDA issues guarantees in "special cases"¹², the special nature of the circumstances will be approved by the Executive Directors on a financing-by-financing basis. These proposals are consistent with recommendations by IEG¹³ and Management's own assessment based on feedback from staff and member countries. This proposal to expand guarantee access to IDA countries is also a proposed policy commitment for IDA 17.

19. Management also proposes to apply to all project-based guarantees the existing requirement applicable to Bank loans that the impact of the project to be supported on the country's fiscal sustainability be acceptable. This requirement would thus equally apply to Bank loans and Bank guarantees across IBRD and IDA eligible countries, harmonizing existing requirements under IPF policy. The overall fiscal sustainability requirement would also help ensure that the commercial borrowing backed by an IDA guarantee is done in a prudent and sustainable manner.

20. **Payment guarantees.** Under the current policy framework, the Bank provides guarantees for private loans, either in the form of PCGs (which cover debt service defaults on a specified portion of a loan, normally for a public sector project), or in the form of PRGs (which cover debt service defaults on a loan, normally for private sector projects, when such defaults are caused by a government's failure to meet its obligations under project contracts to which it is a party). To meet the growing infrastructure needs where project feasibility is not only constrained by financing but also by payment risk mitigation for project outputs or for government termination payment obligations, the Bank has offered PRGs using intermediary commercial banks that provide letters of credit or converting the immediate government payment obligation into a loan. While this may be useful in some cases, this approach may also add to the financial and transactions costs in cases of already complex project financing setting, adversely affecting client countries. Furthermore, clients are increasingly seeking Bank guarantee coverage of non-loan service related government payment obligations not only in favor of private entities but also foreign public entities (e.g., power or gas trade projects), where such payment obligations (arising from contracts, law or regulation) require credit enhancements. Under the current policy framework such guarantees could be designed in principle, but through

¹² See IDA Articles of Agreement, Article V, Section 5(iv), which states: "In addition to the operations specified elsewhere in this Agreement, the Association may: (iv) in special cases, guarantee loans from other sources for purposes not inconsistent with the provisions of these Articles."

¹³ *The World Bank Group Guarantee Instruments 1990-2007: An Independent Evaluation*, op.cit. Annex D summarizes IEG findings on Bank guarantees

very complex structures with increased transaction and financial costs that may deter their use.

21. Management proposes to expand, based on implied powers¹⁴, the scope of Bank guarantees to cover payment default of non-loan related government payment obligations, and to extend these guarantees not only to private entities but also foreign public entities, subject to existing policy considerations for guarantees, as follows: (a) payment guarantees would be aimed at facilitating investment and with clear development objectives and project activities under the same conditions applicable to IPF; (b) such guarantees will not be made to support bilateral debt or debt extended by publicly owned entities that operate under public law for public policy purposes (e.g., export/import finance agencies); (c) as with other Bank guarantees provided to date, under these guarantee structures, the guaranteed obligation would be a direct government/SOE payment obligation; (d) payment guarantees would have an adequate dispute resolution framework so as to avoid entangling the Bank in the substance of any dispute between the parties, including any dispute between two sovereigns or two cross-border SOEs;¹⁵ and (e) they would not be issued if the payment obligations are owed to a member country under payment arrears to the Bank. Additionally, as necessary, the Procurement Guidelines, the Consultant Guidelines, and the Anti-Corruption Guidelines and sanctions procedures applicable to Bank guarantees will be adjusted to reflect the proposed expansion in Bank guarantees' scope.

22. **A flexible approach to the use of project-based guarantees.** Current policy makes a clear distinction between PRG and PCG as two separate products/offerings in the context of Bank guarantees. Given that PCGs and PRGs can be designed under an increasing variety of hybrid guarantee structures to attract new sources of financing such as local currency private financing/sovereign and pension funds, and to further encourage innovative application of the Bank's guarantee instruments, Management proposes to no longer retain the distinction between PCGs and PRGs at the policy level and to differentiate project-based guarantees by the nature of the risks that they propose to

¹⁴ Under international law, an international organization is deemed to have implied powers necessary to enable it to carry out its mandate and its purposes, even if such powers are not provided for in the constituent agreement, provided that such implied powers are not prohibited by or inconsistent with any provision in the respective constituent agreement. Over decades, the Executive Directors of IBRD and IDA have exercised these implied powers to approve a wide variety of activities, operations and financial instruments that are not expressly provided for in IBRD's and/or IDA's Articles of Agreement. A non-exhaustive list of such activities includes: (i) transferring part of IBRD's net income to IDA and various trust funds, (ii) making grants directly out of IDA resources, (iii) providing advisory services, (iv) administering trust funds, (v) investing the Bank's liquid assets, and (vi) providing financial instruments beyond loans and guarantees to Bank borrowers and other clients, such as hedging instruments.

¹⁵ In those cases, the Bank would expect that the payment obligations the Bank is backstopping would be subject to appropriate dispute resolution procedures and that calls under the guarantee could only be made after (i) the government's failure to pay has been clearly determined in accordance with such dispute resolution mechanisms, or (ii) pending the settlement of a dispute, appropriate mechanisms have been put in place to secure the guarantee beneficiary's obligation to reimburse the guaranteed party in the event the final dispute resolution decision determines that the guaranteed party had no liability, or that its liability was for less than the amount of the payment under the Bank guarantee.

cover. This would help make the Bank's guarantee product offering more flexible and responsive to changing and future risk mitigation needs of member countries and private sector participants.

23. **Leverage of Bank resources.** The current Bank guarantee policy does not include a specific requirement for staff to consider leverage of Bank resources. Management proposes that leverage of Bank resources would be one of the considerations in deciding the form of IPF financing, along with the financial costs and benefits, access to private and public financing, and other considerations covered under the Bank's current IPF policy.

24. **Sector policy framework.** Current guarantee policy requires a satisfactory sector policy framework for projects supported by IDA PRGs. This requirement does not apply to projects supported by PCGs and PRGs in IBRD countries or to investment projects supported by Bank loans. The appropriateness of the sector's policy has been an important consideration in providing project-based guarantees. Management proposes that sector issues under projects supported by IBRD and IDA guarantees be assessed in the same manner as Bank loans, with sector conditions and related risks being assessed as part of the economic analysis and risk framework of the project.

25. **Guarantees in project series.** The current Bank guarantee policy does not provide for the possibility of Bank guarantees made in support of a series of projects. Management proposes to align Bank guarantee and Bank loan policy, by explicitly providing that Bank guarantees may be made in a series, in the same manner as for IPF Bank loans; and that Bank guarantees and Bank loans may be made as part of the same series when needed. This would allow for a common approach to project series, whether they are supported by loans or guarantees.

26. **Additional financing.** Bank guarantee policy does not provide for project-based guarantees to be made as additional financing, although Executive Directors have approved such arrangements through policy waivers. Additional financing is an important tool that can fill financing gaps in, and facilitate improvements to, ongoing investment projects, regardless of the form of financing supporting the project. Management proposes to align Bank guarantee policy with Bank loan policy and allow Bank guarantees to be made as another form of additional financing for projects. Under this policy change, a Bank guarantee could be made as an additional financing to an original Bank loan or Bank guarantee, and a Bank loan could be made as an additional financing to an original Bank guarantee.¹⁶

27. **Situations of urgent need of assistance or capacity constraints.** Current policy on Bank guarantees does not provide for special considerations in situations of urgent need of assistance because of natural or man-made disasters or conflict or capacity

¹⁶ By contrast, the policy provisions for retroactive financing will continue to apply only to Bank loans. In respect of Bank guarantee projects, it is accepted that project finance transaction structures sometimes involve the re-financing of underlying project debt, such as bridge loan facilities, and that the Bank's guarantee may cover debt that re-finances such underlying project debt.

constraints. Management proposes to apply to project-based Bank guarantees for public sector projects the same policy currently applicable to Bank loans in situations of urgent need of assistance because of natural or man-made disasters or conflict or capacity constraints due to fragility or specific vulnerabilities.

28. **Enhancing World Bank Group collaboration.** The current policy restricts partnership by stipulating that IDA PRGs can be used only when sufficient support is unavailable from IFC, MIGA and IBRD enclave guarantees. Management proposes to lift this restriction, which imposes unnecessary rigidity and runs counter to the aim of taking advantage of the natural synergies and complementarity of the different parts of the World Bank Group in jointly supporting member countries' needs whenever possible. Instead, Management proposes to package World Bank Group support and instrument(s) on a case-by-case basis, more frequently working in tandem with IFC and/or MIGA. This approach will take into account country and project-specific considerations, and the complementarities and impact that Bank guarantees and overall WBG support can bring to member countries.

29. Over the last several years, IFC, MIGA, and the Bank have deployed risk mitigation instruments with close cooperation amongst the teams. Increasingly, Bank guarantees have been structured with MIGA and IFC support to projects in member countries. Financing and knowledge instruments provided across the WBG to such projects have been complementary, optimizing the use of the WBG balance sheet. Typically, Bank guarantees have been considered for deployment when one or several of its distinct features (e.g., explicit counter-guarantee, booking on Bank's balance sheet, specific remedies attached, presence of the Bank, linkage to the Bank's sector dialogue and reform agenda) are critical from a risk management and/or market point of view to achieve the development objectives pursued. Thus, the deployment of Bank guarantees would continue to be generally considered for transactions under one or several of the following situations:

- Transactions in sectors without an established track-record of reform, where the risk of reversal is seen as significant, and where the involvement and influence of the Bank in the sector dialogue and project preparation are seen as central to the achievement of the development objectives of the project.
- Riskier and/or larger size operations, where booking of the risk on the Bank's balance sheet, with remedies attached to Bank operations, are seen as preferable from a risk management perspective.
- Operations highly dependent on Government support and/or undertakings, where the presence of the Bank is seen as critical to mobilize private financing or enhance leverage in the market.

30. **Project-based guarantees in countries that completed a sovereign debt restructuring agreement.** Current Bank policy states that IBRD does not provide guarantees for sovereign international borrowings for public sector projects in countries undergoing external debt restructuring until the country completes a sovereign debt

restructuring agreement and has in place a macroeconomic framework acceptable to IBRD. Management proposes to maintain this policy for IBRD and expand it to IDA countries. Management intends to clarify in guidance to staff that the aim is to bring fresh financing resources for new investment projects and from new financiers.

31. **Enclave operations.** Enclave operations refer to IBRD financing (for both loans and guarantees) for projects in IDA-only countries. They are distinguished from regular IBRD operations by the requirement to have additional and appropriate credit enhancement features.¹⁷ IBRD requires credit enhancement for enclave operations and determines the appropriateness of these enhancements in assessing whether to support a project in an IDA-only country. Management proposes to clarify and incorporate a positive statement on the ability of IBRD to extend enclave financing for both loans and guarantees. In this context, Management would incorporate formally the Management proposal aimed to make the use of enclaves more flexible, which was communicated in 2009. IBRD, therefore, would be able to continue to provide Bank guarantees for projects in highly rated IDA-only countries that do not themselves generate foreign exchange, but have: (i) clear economic and financial benefits with strong financial flows in local currency through an off-take to a strongly creditworthy party; and (ii) foreign exchange-related credit enhancement is achieved by the dedication of a pre-existing alternative defined source of foreign exchange, "ring-fenced" into a dedicated debt service payment escrow account.

B. Policy-Based Guarantees

32. **Eligibility of IDA countries.** Under the current Bank guarantee policy, PBGs are not available to IDA-only countries. Management proposes that PBGs be made available to all IDA countries at low or moderate risk of debt distress provided they comply with applicable Bank policies relating to non-concessional borrowing. Access to guarantees for IDA countries has been also proposed as a policy commitment for IDA 17. Since IDA's Articles of Agreement provide that IDA issues guarantees in "special cases"¹⁸, the special nature of the circumstances will be approved by the Executive Directors on a financing-by-financing basis.

33. **Leverage of Bank resources.** Current guarantee policy does not include a specific requirement for staff to consider leverage of Bank resources in preparing development policy operations. Management proposes that financial leverage of Bank resources would be one of the factors in deciding the form of DPF, along with the financial costs and benefits and improvement of access to private financing.

34. **Policy-based guarantees in countries that completed a sovereign debt restructuring agreement.** Current Bank guarantee policy does not provide a framework for PBGs to support new financing for countries that have completed a sovereign debt

¹⁷ See OP 7.00, 7.20

¹⁸ See IDA Articles of Agreement, Article V, Section 5(iv), which states: "In addition to the operations specified elsewhere in this Agreement, the Association may: (iv) in special cases, guarantee loans from other sources for purposes not inconsistent with the provisions of these Articles."

restructuring agreement. Management proposes to align PBGs and Bank loan policies, by allowing PBGs to follow the same operational policies as development policy loans, which—under certain conditions—can support and facilitate the process of entrenching debt sustainability. In the context of sovereign debt crisis and the resulting restructuring processes, management proposes to use policy-based guarantees only after a comprehensive, orderly, and adequate sovereign debt restructuring agreement has been completed, including in line with the IMF’s policies and practice on sovereign debt restructuring (including as regards to the provisions of non-tolerance of unresolved arrears to official bilateral or multilateral creditors). Moreover, Bank guarantees would aim to improve credit conditions for the member country. Bank guaranteed debt itself, would remain ineligible for any kind of debt restructuring without the consent of the Bank. The general condition of having an adequate macroeconomic policy framework remains fully applicable

35. **Supplemental financing.** Currently, supplemental financing can only be provided through Bank development policy loans. Management proposes to allow PBGs to be used as another form of supplemental financing in support of development policy operations. In this way, a PBG could be made as supplemental financing to an original policy-based guarantee or loan (as could a development policy loan be made as supplemental financing to an original PBG). While supplemental financing has not been frequently used under development policy loans, supplemental financing needs may arise in certain country circumstances and programs, and supplemental financing in the form of a PBG may be warranted regardless of the original form of financing.

36. **Special DPF.** Under current Bank policy, special development policy financing can only be provided in the form of Bank loans. Management proposes to allow special development policy financing to be made available in the form of PBGs as well. Special development policy loans were introduced in order to enable the Bank to respond swiftly to countries approaching or in crisis. A PBG could fulfill the same role as a special development policy loan in a crisis context, including by helping to open (or re-open) market access to establish (or re-establish) a country’s track record.

37. **Requirement of a satisfactory macroeconomic policy framework.** Currently, the Bank requires the maintenance of a satisfactory macroeconomic policy framework for both PBGs and DPLs. For PBGs, this requirement is a condition of Board presentation only, while for DPLs it is a condition of Board presentation and disbursement. As part of the alignment of Bank guarantees and Bank loans, Management proposes to require that the maintenance of a satisfactory macroeconomic policy framework be both a condition of Board presentation and of signing of each agreement providing for a PBG. This would ensure that the Bank would not complete the issuance of a policy-based guarantee in cases where there has been a significant deterioration in the macroeconomic policy framework between Board approval and signing.

38. **Track record of performance.** Current Bank guarantee policy requires countries to have a “strong track record of performance” as a condition of eligibility for a PBG. The aim of this requirement was to have a signaling effect in markets. However, experience has shown this to be a very subjective, broad, and hard to establish benchmark

for the Bank and markets, particularly as it lacks a concrete anchor on specific country policies. Management proposes to align PBGs with development policy loans, by instead requiring that the country's policy track record be taken into account in assessing its commitment to a specific reform program, including considerations as regards to the adequacy of macroeconomic policies and country systems, among other due diligence considerations.

39. **Use of PBGs in programmatic series.** Under current Bank guarantee policy, a programmatic series of development policy operations cannot include a policy-based guarantee, unless the series itself is stopped and another series is initiated exclusively with policy-based guarantees. However, both policy-based guarantees and development policy loans, in principle, should be able to support the same program of policy and institutional reforms in a single programmatic engagement. Management therefore proposes to align PBG and DPL policies, by providing that PBGs and DPLs may both be made as part of the same programmatic series without distinction.

C. Policy changes applicable to all Bank guarantees

40. **Preparation Advances (PAs) financed out of the Project Preparation Facility.** Under current IPF policy, PAs are available for the preparation of all types of Bank loans. Management proposes to make PAs available to finance activities for the preparation of both project- and policy-based Bank guarantees as well. The need for PAs can arise regardless of the form of financing under preparation, so there is no rationale for keeping projects or policy programs supported by Bank guarantees from benefiting from financing to prepare them. Just as with Bank loans, PAs will be made available for the preparation of Bank guarantees only when there is a strong probability that the Bank guarantee operation, for which the PPA is granted, will materialize. However, since there will normally be no follow-on Bank loan out of which to refinance the PA, PAs made to prepare Bank guarantees will be repaid in the same manner as a PA made for a Bank loan that does not materialize, unless the borrower is willing to finance the PA out of an unrelated loan.¹⁹

D. Additional policy updates and changes

41. Management also proposes additional policy updates to better reflect both operational practice and the evolution of the Bank's operational policy architecture in which policy matters are included in operational policy statements and non-policy procedural matters are included in Bank procedures.

42. *First*, the Bank's graduated policy on suspension of Bank loans would be expanded such that the Bank may suspend all Bank loans or IDA credits to, or guaranteed by, a member country not only when a payment to the Bank under an IBRD loan or an

¹⁹ Under current BP 10.00, if there is no follow-on loan, a PA is repaid in ten approximately equal semiannual installments over a five-year period. However, if the disbursed amount of the PA is US\$50,000 or less, the PA is repaid within 60 days following the Bank's notice to repay.

IDA credit is overdue, but also where a member country is overdue in respect of its payment under an indemnity agreement entered into by such member country in connection with a Bank guarantee. It should be noted that a member country would not be considered to be overdue on a payment under an indemnity agreement if, following a payment from the member country to the Bank becoming due under an indemnity agreement, the Bank were to decide to extend terms to such member country and such member country repays the Bank in accordance with any such agreed terms. In addition, Bank guarantees would not be suspended if a payment under a Bank loan were overdue. This is because of the irrevocable nature of Bank guarantees once issued.

43. *Second*, under the current policy framework for guarantees, PBGs in IBRD countries are not accelerable. Market practice calls for more flexibility in this regard, especially for some particular guarantee structures. At the same time, when fiscal needs are pressing, it would be unwise for IBRD to place an additional potential burden on the public finances of member countries by permitting the possibility that repayment acceleration rights exercised by guaranteed lenders could cause the acceleration of IBRD's guarantee, with the consequence that reimbursement of IBRD would then be required under the member country indemnity. Moreover, a cautious approach by IBRD in permitting accelerable PBGs is warranted in light of the proposal referred to in paragraph 42 above. In this context, Management proposes to make IBRD PBGs accelerable only on an exceptional basis, subject to the approval of the Managing Director in charge of operations (MD-COO). IDA PBGs, like all other IDA guarantees, would remain non-accelerable.

44. *Third*, current policy on development policy lending provides that the Bank may agree with the Borrower on the specific uses of loan proceeds or counterpart funds in development policy lending. However, this provision has not been used. Management therefore proposes to eliminate this provision, which was inherited from the old structural adjustment lending policy. This proposal is in line with the general budget support nature of policy-based lending and the suite of Bank lending instruments that support earmarked spending through IPF and PforR.

45. *Fourth*, current policy on development policy lending provides that the expected volume and share of development policy lending for a borrower is determined in the country strategy, taking into account a number of factors. Management proposes to retain consideration of the instrument mix in the member country's financing plans as part of the country strategy process, taking into account the availability of Bank financing and country circumstances, among other reform program and economic considerations; but to move this to BP 2.11, *Country Assistance Strategies* (and in due course to the new Directive on Country Partnership Frameworks). This fits better the overall operational policy framework and will ensure that the requirement is drawn to the attention of country teams preparing strategies. All Country Strategies, including the framework for operational engagement, will continue to be discussed with the Board.

46. *Fifth*, as regards to risk-tracking in development policy lending operations, Management proposes to move from the provision on tracking indicators for only high

probability risks to a more comprehensive approach to take into account risks to the development results using a more systematic and standardized risk filter. This approach to operational risk is in line with the proposals supported under the 2012 Development Policy Lending Retrospective discussion, as well as in the context of the WBG's new strategy and change process.

47. *Sixth*, to continue streamlining processes, Management proposes to eliminate one item of reporting to Executive Directors at the policy level that is redundant and has no clear value added, that is, the reporting of signing of legal agreements. Management already reports (and will continue to do so) on legal agreements that terminate for failure to become effective.

IV. POLICY CLARIFICATIONS

48. This section sets out clarifications to be introduced by Management which do not constitute policy changes. They remedy perceived gaps by staff and/or unclear provisions in the existing policy framework that were inhibiting the use of this form of financing.

49. **Political subdivisions.** Current Bank guarantee policy does not explicitly state that Bank guarantees may be made to cover debt service defaults of political subdivisions of a member country. Management intends to clarify that Bank guarantees may be made to cover loans (under IPF and DPF) and non-loan related payment obligations (under IPF) of political subdivisions, subject to the provision of a counter-guarantee (or indemnity) by the member country. Political subdivisions have significant demand for Bank support as they increasingly bear the responsibility of delivering basic infrastructure and public services to citizens, including to the poorest segments of the population.

50. **Financial intermediaries under IPF.** The Bank project-based guarantee policy does not explicitly address or prohibit the use of Bank guarantees to support financial intermediaries. Management proposes to clarify that project-based Bank guarantees can indeed be used to mobilize private financing for financial intermediaries by applying similar provisions to those that apply to Bank loans under IPF policy.

51. **Trust funded guarantees for IPF.** Management proposes to align the use of Bank guarantees with investment project financing by permitting the Bank, acting in the capacity of trust fund administrator or implementing entity, to issue guarantees backed by trust funds administered by the Bank. Trust fund-financed Bank guarantees, like trust fund-financed grants and loans, could be issued where a trust fund's governance documents so permit. In such cases, it is proposed that guarantees backed by trust fund resources will be subject to Bank policies and procedures applicable to Bank guarantees, except the policies related to: (a) financial terms (such as the fee regime, maturity limits and accelerability provisions applicable to Bank-funded guarantees); and (b) the financial structure of guarantees (such as the requirement for a member country indemnity; or the eligibility of an IDA member country for a PCG). Trust-funded guarantees may be structured more flexibly in certain circumstances where it is appropriate to help member countries mobilize financing for development purposes. Therefore, Management

proposes that where governance/constituent documents of the particular trust fund expressly provide for differing financial terms or financial structure, and where financial or credit risks resulting from such terms and structure are agreed to be borne by the concerned trust fund, trust-funded guarantees may be structured, on a case-by-case basis, differently from Bank guarantees but consistent with the specific trust fund's terms. It should be noted that, where a trust-funded guarantee provides for the use of a guarantee fee regime that differs to the Bank's guarantee fee regime, the principle of full cost recovery on trust fund operations would continue to apply. All other Bank policies, including the Bank's safeguard and fiduciary policies, applicable to Bank guarantees funded out of Bank resources would continue to apply in their entirety to trust-funded Bank guarantees. Moreover, when issuing trust funded guarantees, the Bank would require, through the relevant legal documents and/or transaction structure, that the Bank's payment obligations under the trust funded guarantee are limited to the amount of funds made available to the Bank from the trust fund and that other appropriate risk mitigation measures would be built in.

52. **Supervision and monitoring of guarantees.** Current policy requires supervision of guarantee-supported operations until the expiration date of the guarantee, but without clarifying the different roles of the Bank in supervision over this extended period of time (which could exceed 10-15 years). Under IPF procedures, Management intends to clarify that the Bank's full implementation support is required until the completion of the underlying project. In the same vein, it would clarify that after project completion, monitoring would be carried out, until the expiration of the guarantee, focusing on the specific risks covered by the Bank guarantee. Executive Directors have approved similar approaches for carbon finance operations, for which formal supervision would end at completion of the low-carbon projects.²⁰ Under DPF, Management intends to clarify that the Bank will monitor the program being supported until the guarantee closing date, which would normally be set at 12 months after effectiveness of the program. Corporate-level monitoring of the Bank guarantee would continue until the guarantee expiration date, focusing on the specific risks covered under the Bank guarantee.

53. **PBG coverage of domestic financing.** Management would clarify that policy-based guarantees can be used, like policy-based loans, to address development financing requirements that have domestic or external origins.

54. **Disputes.** In order to avoid entangling the Bank in the substance of any contractual dispute between the parties, Bank guarantee policy requires (a) that the underlying contracts for PRGs contain appropriate dispute resolution procedures; and (b) that if there is a dispute about the government's obligations, the Bank's guarantee is triggered only after the government's liability has been determined in accordance with such procedures. When the Bank PRG indirectly covers regular government off-take payments, the government is usually liable for timely payments of the full amount invoiced; even when an underlying dispute is ongoing (similar to when an end user has to pay the full amount invoiced by a utility, even if such end user is disputing some of the invoiced charges). In these cases there has been considerable demand for Bank PRGs to

²⁰ Application of Bank Policies to Carbon Finance Activities, March 8, 2011 (R2011-0056).

backstop the entire government payment obligation, in respect of which the Bank would obtain reimbursement under the indemnity provided by the country. In doing so, the Bank has required that appropriate mechanisms be put in place to secure the obligation of the guarantee beneficiary to reimburse the government in the event that the final underlying dispute resolution decision determines that the government had no underlying liability, or that the government's liability was for less than the amount of the payment covered by the PRG. Management intends to clarify that payment of project-based Bank guarantees can be triggered when there is a clear government payment obligation and, in some cases, even if there is an underlying dispute, provided that the underlying contracts include an appropriate dispute resolution mechanism; and that adequate mechanisms exist to ensure the government is properly compensated (in the form of reimbursement, set-off or similar) in the event that the final underlying dispute resolution decision determines that the government had no liability, or that the government's liability was for less than the amount of the payment covered by the PRG. The Bank would continue to ensure that its own legal agreement(s) contains provisions to ensure that the Bank does not get embroiled in payment disputes with respect to such payments.

V. CHALLENGES TO IMPLEMENTATION

55. **A number of challenges to implementation of these policy reforms exist and need to be addressed on a parallel track.** These include the following.

56. **Training and awareness of the reform by staff and clients.** The current underutilization of Bank's guarantee products is in part related to the existing gaps, limitations, and constraints in the policy. However, they are largely connected to staff's perception of complexity in the policy framework and limited knowledge of this form of financing. This results in a failure to explore the option of Bank guarantees to support projects and country programs and explain it to member countries to foster demand. The reform deals with many of these aspects, but implementation will also require intensive awareness and training activities with Bank staff and member countries. Without them, many of the expected results may not materialize during implementation. Management has planned and is committed to undertaking these activities. Management will develop training events for staff during the early stages of implementation, which will be followed up with periodic training academies and refreshers. Training will be not only about Bank guarantees, but also about guarantee product offerings across the WBG, including best practices in collaboration. This outreach and training would also need to include clients. Member countries are often unaware that the Bank offers guarantees and may be resistant to lesser known modalities of financing. Management is committed to engage clients on this form of financing and provide training when needed.

57. **Staff skill mix.** On the business end, pulling together guarantee structures with private lenders and project participants requires a very particular set of financial market skills. The Bank has a limited number of staff with these skills and experience to support Task Team Leaders (TTLs) in guarantee operations. Many TTLs have little or no experience dealing with guarantees. The current number of specialized staff is adequate for the existing size of the business, but ramping up this line of engagement may require hiring new staff with the required skills or/and grooming and re-training existing staff for

this specialized work. Management will review options to staff adequately the medium term implementation of this reform.

58. **Supervision and monitoring of Bank guarantees.** As indicated, Management intends to clarify the type of supervision and monitoring needed at different stages of the lifespan of each Bank guarantee. The aim of the proposed clarification is to avoid overburdening the front lines unnecessarily whilst maintaining the right type of support to and monitoring of guarantee operations. Thus, full implementation support will be required until the closing date (that is, project completion in the case of project-based guarantees or 12 months after effectiveness in the case of policy-based guarantees). Beyond the closing date, monitoring will continue at the corporate level until the expiration date of the guarantee, focusing on the specific risks covered under the Bank guarantee. While this is not the full implementation and/or supervision support provided before closing date at the regional level, it requires an adequate administrative setting with accountabilities, systems, and funding, as appropriate. Management will address this issue, including through the implementation of instructions emanating from this policy.

59. **Continued Bank, IFC, and MIGA collaboration.** Coordination among members of the WBG has improved substantially on the guarantees front over the last years. IFC, MIGA, and IDA are jointly participating in projects supported by PRGs in some IDA countries. As highlighted in Section I, the introduction of the World Bank Performance Standards helped significantly to facilitate a joint approach to supporting private sector projects. The proposed policy changes to the Bank guarantees will facilitate synergies among the WBG and bring the full benefits of the WBG to member countries. In the context of the enhanced policy framework proposed, Management is committed to intensifying such joint endeavors.

VI. REQUEST FOR APPROVAL AND NEXT STEPS

60. **Management believes that a modernized, accessible, and flexible operational policy is necessary to meet the needs of member countries and contribute to a fuller use of Bank guarantees.** In this policy paper, Management proposes the full mainstreaming and integration of Bank guarantees into IPF and DPFs. In the context of this integration, Management proposes a comprehensive set of reforms to streamline, consolidate, and clarify policy provisions and remove unwarranted restrictions on the use of guarantees. Management believes that the proposed policy reforms, together with broader Management reform efforts, would increase the use of guarantees in Bank engagements and result in an increased leverage of the Bank's resources.

61. **Management seeks the Executive Directors' approval of the proposed operational policy changes set forth in Section III of this policy paper.** The proposed changes reflect guidance received from CODE members on the Approach Paper on October 2011, comments received from CODE members on the meeting that discussed the draft policy paper on October 2013, and comments gathered through extensive bilateral discussions with Executive Directors' offices. The proposed reform also takes into account feedback received during public consultations as documented in the paper.

62. Upon approval by the Executive Directors of the above policy changes, Management will update the OP/BPs as follows. Existing OP/BP 14.25, *Guarantees*, will be retired, and OP/BP 8.60 *Development Policy Lending* (to be renamed “*Development Policy Financing*”, and OP/BP 10.00, *Investment Project Financing*, will be revised, so as to unify under one policy framework, the Bank’s different financing modalities (i.e., loans, credits, grants and guarantees) and incorporate the policy proposals and clarifications discussed in this paper. In addition, revisions will be made to OP/BP 3.10, *Financial Terms and Conditions of IBRD Loans, IBRD Hedging Products, and IDA Credits* (to be renamed *Financial Terms and Conditions of Bank Financing*), to incorporate the financial terms and conditions of Bank guarantees; and OP 7.00, *Lending Operations: Choice of Borrower and Contractual Agreements* (to be renamed *Bank Loans and Bank Guarantees: Contractual Arrangements*), to incorporate certain legal aspects relating to Bank guarantees previously covered in OP/BP14.25. The proposed policy changes will also require certain adjustments to other policy statements, including the Procurement Guidelines, the Consultant Guidelines, and the Anti-Corruption Guidelines and Sanction Procedures applicable to Bank guarantees, which will be made following approval of the policy proposals. Finally, the affected OP/BPs will be updated to capture the policy (and related procedural) content of Bank guarantee policies approved by the Executive Directors since 2002 which were not captured in OP/BP 14.25. A draft revised OP/BP 8.60 and 10.00, together with a draft excerpt of the proposed enclave and guarantee provisions to be reflected in OP 3.10, are attached for the Executive Directors’ information in Annexes 2 and 3 to this paper, respectively. A table with draft language showing changes necessary to the Procurement Guidelines, the Consultant Guidelines and to the Anti-Corruption Guidelines applicable to Bank guarantees, is attached in Annex 4.

63. *Next steps.* The policy paper will be publicly available upon distribution to Executive Directors, in accordance with the Access to Information policy. To enable adequate time to prepare for implementation in terms of procedures, instructions, guidance, systems, and training, it is expected that, if approved, the policy changes will take effect starting on July 1, 2014.

ANNEX 1: SUMMARY OF PROPOSED GUARANTEE POLICY CHANGES AND POLICY CLARIFICATIONS

<i>Current Policy</i>	<i>Proposed Policy Revisions/Clarifications</i>
I. Policy Changes	
A. Project-Based Guarantees	
A1: Guarantees eligibility for IDA countries <ul style="list-style-type: none"> • PCGs are not available for IDA-only countries. 	<ul style="list-style-type: none"> • Make all forms of project-based guarantees available to all IDA countries under certain fiscal/debt distress risk limitations.
A2: Payment guarantees <ul style="list-style-type: none"> • Payment guarantees are not available under current Bank guarantee policy. 	<ul style="list-style-type: none"> • Expand the scope of Bank guarantees to cover payment defaults of non-loan related government payment obligations, to private entities and to foreign public entities, subject to existing policy considerations.
A3: Distinction between PRG and PCG <ul style="list-style-type: none"> • Current Bank guarantee policy presents these two forms of guarantees as separate products. 	<ul style="list-style-type: none"> • No longer distinguish between PCGs and PRGs at the policy level.
A4: Leverage of Bank resources <ul style="list-style-type: none"> • Current Bank guarantee policy does not include a specific requirement to consider leverage of Bank resources. 	<ul style="list-style-type: none"> • Leverage of Bank resources is one consideration in deciding on the form of financing in IPF, along with the financial costs and benefits and access to private and public financing, and other considerations currently in IPF policy as appropriate.
A5: Sector policy framework <ul style="list-style-type: none"> • IDA guarantees are appropriate only for projects in a sector for which the government is implementing a policy framework acceptable to IDA. 	<ul style="list-style-type: none"> • Align Bank guarantee and Bank loan policy by addressing sector conditions and related risks in projects supported by Bank guarantees through the economic analysis and risk framework.
A6: Guarantees in programmatic project series <ul style="list-style-type: none"> • Current Bank policy does not provide for the possibility of IDA guarantees supporting a series of projects. 	<ul style="list-style-type: none"> • Align Bank guarantee and Bank loan policies, by providing that Bank guarantees may be made in a programmatic series, and that Bank guarantees and Bank loans may be made as part of the same programmatic series.
A7: Additional financing <ul style="list-style-type: none"> • Additional financing is currently unavailable for project-based Bank guarantee operations. 	<ul style="list-style-type: none"> • Treat Bank guarantees as another form of additional financing for projects so that a Bank guarantee could be made as an additional financing to an original Bank loan or Bank guarantee, and a Bank loan could be made as an additional financing to an original Bank guarantee.
A8: Situations of urgent need of assistance or capacity constraints <ul style="list-style-type: none"> • There are no special considerations for Bank guarantees 	<ul style="list-style-type: none"> • Align Bank guarantees for public sector projects with current IPF policy for Bank loans as

supporting projects in situations of urgent need of assistance or capacity constraints.	regards support for projects in situations of urgent need of assistance or capacity constraints.
A9: PRGs and other WBG support	
<ul style="list-style-type: none"> • IDA PRGs can be used only when sufficient support is unavailable from IFC, MIGA and IBRD enclave guarantees. 	<ul style="list-style-type: none"> • Eliminate this requirement and instead, decide on the choice of instrument(s) on a case-by-case basis, taking into account country and project specific considerations, and the complementarities and impact that joint WBG support can bring to member countries.
A10: Countries undergoing external debt restructuring	
<ul style="list-style-type: none"> • PCGs are not provided for sovereign international borrowings for public sector projects in countries undergoing external debt restructuring until the country completes a debt restructuring agreement with commercial lenders and has in place a macroeconomic framework acceptable to IBRD. 	<ul style="list-style-type: none"> • Eliminate this restriction, thereby aligning Bank guarantees with Bank loans. Bank guaranteed debt would continue to be ineligible for any kind of debt restructuring without the consent of the Bank.
A11: Enclave operations	
<ul style="list-style-type: none"> • Enclave guarantees are available for projects generating foreign exchange in IDA-only countries. 	<ul style="list-style-type: none"> • State that IBRD can extend (a) enclave financing for both Bank loans and guarantees and (b) Bank guarantees in highly rated IDA-only countries for projects that do not themselves generate foreign exchange, subject to certain conditions.
B. Policy-Based Guarantees	
B1: PBG eligibility for IDA countries	
<ul style="list-style-type: none"> • PBGs are not available for IDA countries. 	<ul style="list-style-type: none"> • Make PBGs available to all IDA countries at low or moderate risk of debt distress provided they comply with applicable Bank policies relating to non-concessional borrowing.
B2: Leverage of Bank resources	
<ul style="list-style-type: none"> • Current guarantee policy does not include a specific requirement on financial leverage. 	<ul style="list-style-type: none"> • Make financial leverage of Bank resources one factor in deciding the form of DPFs (Bank guarantee; or Bank loan), along with the financial costs and benefits of the operation, and improvement of access to private financing.
B3: Debt restructuring	
<ul style="list-style-type: none"> • PBGs cannot be provided for debt restructuring. 	<ul style="list-style-type: none"> • Align Bank guarantee and Bank loan policies, by allowing PBGs to follow the same operational policies as development policy loans, which – under certain conditions – can support and facilitate the process of debt restructuring of debt not previously financed by the Bank.
B4: Supplemental Financing	
<ul style="list-style-type: none"> • PBGs currently cannot be made as a supplemental financing for development policy loans. 	<ul style="list-style-type: none"> • Treat Bank guarantees as another form of supplemental financing for programs; so that a Bank guarantee can be made as a supplemental financing to a Bank loan and vice versa.
B5: Special Development Policy Financing	

- Special development policy operations are currently unavailable for PBGs.
- Introduce special development policy financing as an option for PBGs.

B6: Requirement of satisfactory macroeconomic policy framework

- PBGs currently require the maintenance of a satisfactory macroeconomic policy framework at Board approval stage, while for development policy loans this requirement is applied at Board approval and disbursement.
- Make maintenance of a satisfactory macroeconomic policy framework a condition of Board presentation and of signing of each agreement providing for a Bank guarantee.

B7: Track record of performance

- PBGs currently require member countries to have a strong track record of country performance and programs for gaining access to international financial markets on their own in the medium term.
- Align the requirement with Bank policy for development policy loans, which require an assessment of the strength of the country's reform program and the commitment to, and ownership of, the program against its track record, as well as the adequacy of its macroeconomic policy framework and country systems.

B8: Use of PBGs in programmatic series

- The Bank's current guarantee policy has no explicit provisions governing guarantees under a programmatic series of development policy operation
- Allow PBGs to be made, along with Bank loans, as part of a programmatic series of development policy operations

C. All Bank Guarantees

C1: Preparation advances financed out of the Project Preparation Facility

- Current Bank policy does not provide for preparation advances (PA) under the Project Preparation Facility to prepare project-based or policy-based Bank guarantees.
- Allow PAs to be made to prepare project-based or policy-based Bank guarantee operations.

D. Additional policy updates and changes

D1: Suspension of Bank loans

- Currently, Bank policy on suspension for non-payment only covers non payments under Bank loans
- Expand graduated policy on suspension of Bank loans to include overdue payments under a member country indemnity. However, Bank guarantees would not be suspended if a payment under a Bank loan were overdue.

D2: Accelerability of PBG for IBRD members

- Under the current policy framework for guarantees, PBG in IBRD countries are not accelerable.
- PBGs could be accelerable only on exceptional basis and only with the approval of the MD-COO.

D3: Specific uses of DPF proceeds

- Current Bank policy on development policy lending provides that the Bank may agree with the Borrower on the specific uses of loan proceeds or counterpart funds in development
- Eliminate this provision inherited from the old structural adjustment lending policy. This proposal is in line with the general budget support nature of policy-based lending and the suite of other Bank lending instruments that support earmarked spending.

policy lending.

D4: Volume and share of DPF

- Current Bank policy on development policy lending provides that the expected volume and share of development policy lending for a borrower is determined in the CAS, taking into account a number of factors.
- Transform this policy requirement into a Management level procedure, which would provide that the volume of policy-based financing depends on the availability of Bank financing and country circumstances, among other reform program and economic considerations.

D5: Monitorable indicators to track high probability risks in DPF

- Existing policy on development policy lending requires that the operations supported contain monitorable indicators to track high probability risks.
- Move from the provision on tracking indicators for only high probability risks to a more comprehensive approach to take into account risks to the development results using a more systematic and standardized risk filter.

D6: Reporting requirements from management to EDs

- Management is required to report to EDs the signing of legal agreements.
- Eliminate this requirement that is redundant. Management already reports (and will continue to do so) on legal agreements that terminate for failure to become effective, which is the more relevant information to Executive Directors as regards to legal agreements.

II. Policy Clarifications

PC1: Eligibility of political subdivisions

- Current Bank guarantee policy does not specify whether Bank guarantees may be made to cover debt service defaults of political subdivisions of a member country.
- Clarify that Bank guarantees may be made to cover loans (under DPF and IPF) or non-loan related payment obligations (under IPF) of political subdivisions, subject to the provision of a member country indemnity.

PC2: Financial intermediaries

- The Bank guarantee policy does not specify whether project-based Bank guarantees may be made for financial intermediaries.
- Clarify that project-based Bank guarantees may be used to mobilize financing for eligible financial intermediaries to be used by them for loans and/or guarantees to, and/or as equity in, final borrowers/beneficiaries, for specific sub-projects.

PC3: Trust funded guarantees

- The existing guarantee policy framework does not contemplate the use of TFs.
- Management proposes that project-based and policy-based guarantees may be issued using trust fund monies where a trust fund's governance documents expressly so permit. It is proposed that guarantees backed by trust fund resources will be prepared subject to the same policies and procedures applicable to guarantees backed by IBRD/IDA funds, except that in respect of the policies related to financial terms and to the financial structure of guarantees (including the requirement for a member country indemnity), trust-funded guarantees may be structured more flexibly.

PC4: Supervision and monitoring of guarantees in projects and programs

- Current policy requires supervision of guarantee-supported operations until the expiration date of the guarantee, but without clarifying the different roles of the Bank in supervision over this extended period of time (which could exceed 10-15 years).
 - Clarify that (a) under project-based guarantees, the Bank's full implementation support ends at the completion of the underlying project for which the Bank guarantee is issued; and (b) under PBGs the Bank supports and monitors the program until the guarantee closing date. Corporate-level monitoring of each Bank guarantee continues until the guarantee expiration date, focusing on the specific risks covered under the Bank guarantee.
-

PC5: Coverage of domestic financing

- PBGs are limited to foreign private financing for external financing needs.
 - Clarify that PBGs may be made for both domestic as well as external financing, in line with DPLs.
-

PC6: PRG dispute resolution

- Current Bank guarantee policy requires (i) that the underlying contracts for PRGs contain appropriate dispute resolution procedures; and (ii) that if there is a dispute about the government's obligations, the Bank's guarantee is triggered only after the government's liability has been determined in accordance with such procedures.
 - Clarify that Bank PRGs can be triggered when there is a clear government payment obligation, and in some cases, even if there is an underlying dispute, provided that the underlying contracts provide an appropriate dispute resolution mechanisms; and that adequate mechanisms exist to ensure the government is properly compensated in the event that the final underlying dispute resolution decision determines that the government had no liability, or that the government's liability was for less than the amount of the payment covered by the PRG.
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ANNEX 2:

OP/BP 10.00 AND OP/BP 8.60

(In track change mode)



Note: This OP/BP and BP 10.00, *Investment Project Financing*, which together replace OP/BP 10.00, *Investment Lending: Identification to Board Presentation*, were revised/updated on April 2013, 201, to take into account/reflect the recommendations in “*Investment Lending Reform: Modernizing and Consolidating Operational Policies and Procedures (R2012-0204)* [Title of Board paper proposing guarantees mainstreaming (R---- [IDA/R2012-0248]), R]], which were approved by the Executive Directors on October 25, 2012, 201. As a result of these recommendations, the following OP/BPs and an OMSBP 14.25, *Guarantees*, have been retired; and their content included/reflects in this OP and BP10.00, as well as in OP and BP3.10, OP and BP7.00, and OP and BP8.60, *Development Policy Financing*/BP: OMS 2.20, *Project Appraisal*; OP/BP 6.00, *Bank Financing*; OP/BP 8.10, *Project Preparation Facility*; OP/BP 8.30, *Financial Intermediary Lending*; OP/BP 10.02, *Financial Management*; OP/BP 10.04, *Economic Evaluation of Investment Lending*; OP/BP 12.00, *Disbursement*; OP/BP 13.00, *Signing of Legal Documents and Effectiveness of Loans and Credits*; 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 13.30, *Closing Dates*; OP/BP 13.40, *Suspension of Disbursements*; OP/BP 13.50, *Cancellations*; and OP/BP 13.55, *Implementation Completion Reporting*.

Projects supported by Investment Project Financings are governed by this OP, the related BP, and the following OPs and BPs, as appropriate (including any relevant Operational Memoranda and internal Instructions [internal use/available only]; to staff): 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 4.03, *Performance Standards for Private Sector Activities*; 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 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 8.00-8.00, *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*; and BP 17.55, *Inspection Panel*.

Questions on Investment Project Financing may be addressed to OPCS Help Desk.

Investment Project Financing

1. Bank¹ Investment project financing of investment projects (“Investment Project Financing”) by the Bank² aims to promote poverty reduction and sustainable development of member countries by providing financial and related operational support to specific projects (“Projects”) that promote

¹— In this OP, unless the context requires otherwise, the term (a) “Bank” means IBRD and IDA (whether acting in its own capacity or as administrator of trust funds funded by other donors); (b) “financing” means any loan, credit, or grant made by the Bank from its resources or from trust funds funded by other donors and administered by the Bank, or a combination of these; and (c) “borrower” means a borrower or recipient of Bank financing for an investment project, and any other entity involved in the implementation of the Project.

² In this OP, unless the context requires otherwise, the term “Bank” means IBRD and/or IDA (whether acting for its own account or in the capacity as administrator of trust funds funded by donors).



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 is comprised of Bank Loans³ and Bank Guarantees.⁴ Investment Project Financing supports projects (“Projects”) with defined development objectives, activities, and results, ~~and~~. The Bank disburses the proceeds of Bank ~~financing~~Loans against specific eligible expenditures.

2. Subject to the other applicable requirements of this operational policy statement (OP), Investment Project Financing may be extended for any type of activities and expenditures, provided they are productive and necessary to meet the development objectives of the Project, the impact of the Project on the member country’s fiscal sustainability is acceptable, and acceptable oversight arrangements, including fiduciary arrangements, are in place to ensure that Investment Project Financingthe proceeds of the Bank Loan, the proceeds of the Bank-guaranteed debt, or the Bank-guaranteed payments are used only for the purposes for which the financing is granted or the payments are made, 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 request, disburse a portion of the proceeds of the Investment Project Financinga Bank Loan as an advance.

3. A Bank Guarantee covers, in relation to a Project: (i) loan-related debt service defaults caused by government⁵ failure to meet specific payment and/or performance obligations arising from contract, law or regulation; and/or (ii) payment default on non-loan related government payment obligations. The Bank provides guarantees to the extent necessary to mobilize private financing for the Project and/or to mitigate payment risks of the Project, taking into account country, Project and market circumstances. The member country requesting the Bank Guarantee provides a Member Country Indemnity to the Bank.⁶ The financial costs and benefits, access to

³ In this OP, unless the context requires otherwise, the term: (a) “Bank Loan” means any loan, credit or grant made by the Bank from its own resources or from trust funds funded by other donors and administered by the Bank, or a combination of these; (b) “Borrower” means a borrower or recipient of a Bank Loan for a Project, and any other entity involved in the implementation of the Project financed by the Bank Loan; (c) “Member Country Guarantee” means any guarantee provided by the member country to the Bank in connection with a Bank Loan.

⁴ In this OP, unless the context requires otherwise, the term: (a) “Bank Guarantee” means a guarantee provided by the Bank (i) of financing extended by private entities; or (ii) of non-loan related government payment obligations in favor of private entities or of foreign public entities, and arising from contracts, law or regulation; (b) “Member Country Indemnity” means the counter-guarantee and indemnity provided by a member country to the Bank in connection with a Bank Guarantee; (c) “Implementing Entity” means any entity responsible for the implementation of a Project supported by a Bank Guarantee; and (d) “Project Participants” means public or private entities, including the member country and Implementing Entities, participating in the development or implementation of a Project supported by a Bank Guarantee.

⁵ For the purposes of Bank Guarantees, “government” includes a member country’s political and administrative subdivisions and all other public sector entities.

⁶ If the Bank Guarantee is backed by a trust fund, and the constituent documents of the trust fund permit, the Bank may forego the requirement of a Member Country Indemnity.



private and public financing, and leverage of Bank resources, among other considerations stated in this OP, are considered in deciding on the form of IPF financing, as appropriate.

General Considerations in Investment Project Financing

3.4. 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.

4.5. *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 or, as appropriate, the member country.

5.6. *Economic Analysis.* The Bank undertakes an economic analysis of the Project. Taking into account the Project's 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. For Projects supported by a Bank Guarantee, a financial viability analysis is also required.

6.7. *Financial Management.*⁷ The Borrower or Implementing Entity/ies maintains, or causes to be maintained, for Project implementation, 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 Bank Loan, the proceeds of the Bank-guaranteed debt or the Bank-guaranteed payments are used for the purposes for which they are granted, or the payments are made. Financial management arrangements are the planning, budgeting, accounting, internal control, funds flow, financial reporting, and auditing arrangements of the Borrower and entity or entities responsible for Project implementation. The financial management arrangements for the Project rely on the Borrower's or Implementing Entity's/ies' existing institutions and systems, with due consideration of the capacity of those institutions.

7.8. *Procurement.*⁸ Procurement policies applicable to Investment Project Financing Bank Loans are set out in OP 11.00, except for procurement referred to in paragraph 4+12 (d)(ii) below, in which case the Bank's Administrative Manual Statement requirements apply.

⁷ The provisions of this paragraph do not apply to private sector parties involved in a Project supported by a Bank Guarantee.

⁸ For procurement requirements applicable to Bank Guarantees, see paragraph 19 of BP9.00.



~~8.9.~~ *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, [4.03](#), 4.04, 4.07, 4.09, 4.10, 4.11, 4.12, 4.36, and ~~4.37~~, [as appropriate](#).

~~9.10.~~ *Risks.* The Bank assesses the risks to the achievement of the Project's development objectives with due consideration for the risks of inaction, taking into account the assessments noted above and other relevant information.

Special Considerations

~~10.11.~~ The following types of Projects may have specific policy requirements and special considerations.

~~11.12.~~ *Projects in Situations of Urgent Need of Assistance or Capacity Constraints.*⁹ In cases where the ~~B~~borrower/beneficiary [or, as appropriate, the member country](#) 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) experience 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 [sub-paragraph 11.12\(i\) above](#) of this OP.
- (b) Such Projects [financed by a Bank Loan](#) 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 ~~B~~borrower).
- (c) Such Projects are subject to special limits on the use of (i) Preparation Advances ("PAs") (see paragraphs ~~16-17-18~~ of this OP) and, (ii) [in the case of Projects supported by a Bank Loan](#), 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, [and](#) national agencies, private entities, or other third parties; and (ii) where no viable implementation alternatives exist, the Bank may execute start-up activities financed

⁹ [With respect to Bank Guarantees, the provisions of this paragraph only apply to public sector projects.](#)



~~as~~under a grant from the Project Preparation Facility (see paragraphs ~~16-17-18~~ of this OP) 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 the Borrower's or the Implementing Entity's 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 or the Implementing Entity. Proposals for Bank-executed start-up activities are limited to activities which involve the procurement of small contracts for goods and works, and the provision of technical assistance necessary to enable the Borrower or the Implementing Entity to undertake the execution of subsequent Project activities.

~~12.13.~~ Disaster prevention and preparedness and capacity-building activities may be supported by a stand-alone Project with a contingent financing feature, or may be embedded in a regular Project through a contingent emergency response component that, once triggered, is subject to the exceptional policy requirements set out in paragraph ~~11.12~~ above.

~~13.14.~~ For existing Projects supported by a Bank Loan, which are 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 ~~22.24~~ of this OP) that require changes in the Project's development objectives.

~~14.15.~~ *Series of Projects.* Investment Project Financing may support a series of Projects through several Bank Loans: (a) to a single Borrower, when ~~the~~the Projects' 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 ~~country~~ Borrower may be designed as part of a series of Projects with similar well-defined eligibility criteria and/or common design features. Investment Project Financing supporting a series of Projects through several Bank Guarantees is designed in an equivalent manner, and may involve: (a) a single Implementing Entity and one or more member countries; or (b) multiple Implementing Entities and one or more member countries.

~~15.16.~~ *Projects Involving Financial Intermediaries.* Investment Project Financing may be used (a) to provide ~~funds~~Bank Loans to eligible financial intermediaries to be used by them for ~~sub-loans to,~~ and/or as equity in, final borrowers/beneficiaries for specific sub-projects; or (b) to provide Bank Guarantees to mobilize debt financing for eligible financial intermediaries to be used by them for loans and/or guarantees to, and/or as equity in, final borrowers/beneficiaries, for specific sub-projects. 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, [4.03](#), 4.04, 4.07, 4.09, 4.10, 4.11, 4.12, 4.36, and 4.37, [as appropriate](#).

Preparation Advances

~~16.~~17. The Bank may make a preparation advance (“Preparation Advance” or “PA”) from the Project Preparation Facility (“PPF”) to a ~~prospective~~ Borrower [listed in paragraph 18](#) to finance: (a) preparatory and limited initial implementation activities for the Project; or (b) preparatory activities for operations to be financed by Development Policy [Financing Lending](#) or Program-for-Results Financing. PAs 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 PAs.

~~17.~~18. The following may be Borrowers of PAs: (a) in the case of a PAs made by IDA, a member country or a regional organization; and (b) in the case of a 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 PA is required. A PA is made only when there is a strong probability that the Bank financing operation for which the PA is granted will be made, but granting a PA does not obligate the Bank to finance support the operation for which it is granted. Once approved, a PA is treated as ~~an~~ a Bank Loan under Investment Project Financing. The PA may be refinanced from the proceeds of any Bank financing Loan. If such financing Bank Loan does not materialize, the PA is repaid by the Borrower, unless at the time of PA approval by the Bank, the Borrower was eligible only to receive IDA grants, in which case the PA becomes a grant and is not repaid, but ~~;~~ (unless the PA is made to a regional organization) the amount is deducted from the IDA allocation ~~of~~ to the country in question.

Borrower and Bank Roles and Responsibilities in Investment Project Financing

~~18.~~19. The Borrower prepares the Project for which ~~it seeks~~ Investment Project Financing. a Bank Loan is sought. The Project’s scope, objectives, and the ~~borrower’s~~ contractual rights and obligations of the Bank and the Borrower are set out in the legal agreements with the Bank. The obligations include the requirement to carry out the Project with due diligence, maintain appropriate implementation monitoring and evaluation arrangements, ~~and~~ comply with procurement, financial management, disbursement, social and environmental obligations, ~~—The borrower~~ measures and reports against the achievement of the Project’s development objectives and results and provides agreed financial and audit reports. The Borrower is expected to deal in a timely and effective manner with actual or alleged problems or violations (individual or systemic) in these areas.

20. The Project Participants prepare the Project for which a Bank Guarantee is sought. The Project’s scope, objectives, and the contractual rights and obligations of the Bank and the Project Participants are set out in the legal agreements with the Bank, and in the legal agreements among the Project Participants. The obligations of the Project Participants include, as appropriate, the



requirement to comply with applicable environmental and social obligations, prepare and provide suitable financial statements and provide specific reports and other Project-related notices and information to the Bank. The member country is responsible for evaluating the Project's development objectives and results.

19-21. The Bank appraises the proposed Project in accordance with this OP and other applicable policies; and if a Bank Guarantee is proposed, it develops the structure of the Bank Guarantee in consultation with the Project Participants. During Project implementation, the Bank monitors the Borrower's or the Project Participants' compliance, with the borrower's (or their) obligations as set out in the legal agreements and with the Bank. The Bank also provides implementation support to the Borrower or the member country by reviewing the borrower's information on Project implementation progress, progress towards achievement of the Project's development objectives and related results, and updates the risks and related management measures. Project implementation support and monitoring carried out by the Bank during the implementation period ends at the completion of the Project. However, monitoring carried out by the Bank of a Bank Guarantee continues until the Bank Guarantee Expiration Date (see paragraph 26 below).

Managing Investment Project Financing

20-22. Approval. The Executive Directors decide whether to approve IBRD and IDA Investment Project Financing proposals.¹⁰ Except for IDA grants and trust fund-financed grants explicitly requiring approval by the Executive Directors, all other grants are approved by Management. The Executive Directors consider and approve each IDA guarantee as meeting the special cases provision of IDA's Articles of Agreement.¹¹

21-23. Signing. Signing of legal agreements for Investment Project Financing takes place: (a) after all required authorizations have been issued; and (b) provided there are: (i) no payments on IBRD loans or IDA credits to the Borrower, or to or guaranteed by the member country, that are overdue by 30 days or more; and (ii) no payments under a Member Country Indemnity that are overdue by 30 days or more; unless, in exceptional circumstances, Management approves the signing and reports such information to Executive Directors.

22-24. Restructuring. During implementation, the Bank, and the Borrower, and the member country, as appropriate, 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 proceeds of a Bank Loan, cancel unwithdrawn amounts of the financing

¹⁰ For more details, staff may refer to internal guidance from the Corporate Secretariat.

¹¹ IDA's Articles of Agreement provide that "in special cases" IDA guarantees loans from other sources for purposes not inconsistent with the provisions of the Articles.



Bank Loan prior to the Loan Closing Date, extend the Closing Date¹², or otherwise respond to changed circumstances. A restructuring involving a modification of the original Project's development objectives, an extension of the Bank Guarantee Expiration Date, or a change in safeguard category— from a lesser category to a Category A (as defined in OP 4.01 or OP4.03 as applicable) or the trigger of a safeguard policy not triggered originally by the Project—, is referred to as a level one (“Level One”) restructuring and is submitted for consideration by the Executive Directors (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 (“Level Two”) restructuring. Management has the delegated authority to approve Level Two restructurings. Management periodically informs the Executive Directors of the Level Two restructurings.

~~23-25.~~ Loan Closing Date. The closing date (“of a Bank Loan (“Loan Closing Date”)”) is the date after which the Bank may stop accepting withdrawal applications under ~~the Investment Project Financing a Bank Loan~~ and cancel any undisbursed balance ~~in the financing account.~~ The Loan Closing Date is not extended: (a) for ~~Projects Bank Loans~~ subject to suspension of disbursements, except for items exempted from suspension; or (b) for any ~~financing Bank Loan~~ 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 Loan Closing Date may be approved by Management.

26. Bank Guarantee Closing Date; Bank Guarantee Expiration Date; The closing date for a Bank Guarantee (“Bank Guarantee Closing Date”) is the expected completion date of the Project. The expiration date of a Bank Guarantee (“Bank Guarantee Expiration Date”) is the date after which the Bank stops accepting calls on the Bank Guarantee.

~~24-27.~~ Investment Project Financing Completion Report. The Bank evaluates and reports on the performance of the Project. The report seeks to include the Borrower's and member country's evaluation of the Project. For ~~Projects~~ Investment Project Financing approved by the Executive Directors and whose legal agreements do not become effective or for which the ~~financing Investment Project Financing~~ is 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 and Remedies

~~25-28.~~ If the Borrower or a Project Participant does not comply with its contractual obligations to the Bank, or other events occur which give rise to a legal remedy under the loan legal agreements for

¹² “Closing Date” refers, collectively or as the context requires, singularly, to a Loan Closing Date and/or a Bank Guarantee Closing Date, as defined in paragraphs 25 and 26 respectively.



the Investment Project Financing, the Bank consults with the ~~B~~borrower, ~~or the Project Participant~~ and requires ~~the borrower to take~~ timely and appropriate corrective measures ~~to be taken~~. The Bank's legal remedies are specified in the relevant legal agreements ~~and~~. ~~In the case of Bank Loans, these~~ include suspension of disbursements of, and cancellation of, unwithdrawn amounts of the ~~financing~~, Bank Loan. ~~In the case of Bank Guarantees, these may, depending on the transaction, include the right to suspend or terminate the Bank Guarantee.~~ 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 ~~the B~~borrower's ~~or Project Participant's~~ commitment and actions to address the identified problems. However, the Bank takes a graduated approach to suspension ~~of Bank Loans~~ for non-payment, and when ~~a payment to the Bank under an IBRD loan or, an IDA credit payment from the borrower to the Bank, or a Member Country Indemnity~~ is overdue by 60 days, the Bank suspends all ~~financings~~ Bank Loans to, or guaranteed by, the ~~member~~ country concerned.

Additional Investment Project Financing

~~26-29.~~ The Bank may provide additional ~~financing~~ Investment Project 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~~ Bank Loan or Bank Guarantee 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 paragraphs ~~3-94-10~~ of this OP. Additional ~~financing financed by IBRD loans, IDA credits or grants and trust fund-financed grants are~~ Investment Project Financing is submitted for approval by the Executive Directors unless authority for approval of the specific ~~financing source~~ Investment Project Financing rests with Management.

Disclosure of Information

~~27-30.~~ 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 *Policy on Access to Information*.



Note: This OP/BP and BP 10.00, *Investment Project Financing*, which together replace OP/BP 10.00, *Investment Lending: Identification to Board Presentation*, were revised/updated on April 2013 _____, 201____, to take into account/reflect the recommendations in “*Investment Lending Reform: Modernizing and Consolidating Operational Policies and Procedures (R2012-0204 [insert title of board paper proposing guarantees modernization (R--- [IDA/R2012-0248], R---)]*), which were approved by the Executive Directors on October 25, 2012, _____, 201____. As a result of these recommendations, the following OP/BPs and an OMSBP 14.25, *Guarantees*, have been retired, and their content included/reflects accordingly in this OP and /BP, as well as in OP and BP 3.10, _____, OP7.00, _____, and OP and BP8.60, *Development Policy Financing*:- OMS 2.20, *Project Appraisal*; OP/BP 6.00, *Bank Financing*; OP/BP 8.10, *Project Preparation Facility*; OP/BP 8.30, *Financial Intermediary Lending*; OP/BP 10.02, *Financial Management*; OP/BP 10.04, *Economic Evaluation of Investment Lending*; OP/BP 12.00, *Disbursement*; OP/BP 13.00, *Signing of Legal Documents and Effectiveness of Loans and Credits*; 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 13.30, *Closing Dates*; OP/BP 13.40, *Suspension of Disbursements*; OP/BP 13.50, *Cancellations*; and OP/BP 13.55, *Implementation Completion Reporting*.

Projects supported by Investment Project Financings are governed by this OP, the related BP, and the following OPs and BPs, as appropriate (including any relevant Operational Memoranda and internal Instructions (internal use/available only) to staff): 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/BP4.03, *Performance Standards for Private Sector Activities*; 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 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-8.00, 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*; and BP 17.55, *Inspection Panel*.

Questions on Investment Project Financing may be addressed to OPCS Help Desk.

Investment Project Financing

1. The Bank¹ assesses a Project proposed by the Borrower in the case of a Bank Loan, or by Project Participant(s), in the case of a Bank Guarantee, for Investment Project Financing and, upon

¹ The terms used in this BP have the meanings set forth in OP10.00. If a Project is financed by a Bank Loan only, the references and requirements relating to the “Borrower” and “Bank Loan” apply; and the references and requirements relating to “Project Participant(s)” or “Implementing Entity” and “Bank Guarantee” do not apply. If a Project is financed by a Bank Guarantee only, the references and requirements relating to the “Project Participant(s)”, “Implementing Entity” and Bank Guarantee apply; and the references and requirements relating to “Borrower” and “Bank Loan” do not apply.



Investment Project Financing approval, provides implementation support to the Borrower or Project Participant, 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 the financing~~ depending on whether a Bank Loan or a Bank Guarantee is proposed, and on Project risk and special considerations, including exceptional arrangements in situations of urgent need of assistance or capacity constraints, (as described in Section C (Projects that are part of a series, financial intermediary financing, and small grants with Special Considerations) of this BP 10.00). 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, and approval ~~of the financing.~~

From Identification through Concept

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

5. **Identification Stage.** At the identification stage, the Bank consults with the Borrower or Project Participant(s), on the proposed Project, and seeks to identify the Project's overall parameters, objectives, financing requirements and sources, possible level of ~~financing~~ Investment Project Financing and other general information. After the ~~Bank and borrower~~ various parties have reached a 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 ~~or Project Participant(s)~~:

- (a) identifies the Project and its components, 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 ~~financing~~ Investment Project Financing;
- (d) proposes the key features of the guarantee structure for a Project supported by a Bank Guarantee;

² ~~BP 10.00 is derived from and accompanies OP 10.00.~~



- (e) proposes, in accordance with OP/BP 4.01 or OP/BP 4.03, as appropriate, an environmental assessment category for the Project and indicates any other potentially applicable requirements under the Bank's social, environmental, and other policies;
- (ef) briefly identifies the type of economic rationale and/or analysis appropriate for the Project; and
- (f-g) 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 financing along with Investment Project Financing, and provides appropriate guidance to teams on the future preparatory work. Decisions are also made on whether OP/BP 4.01 and/or OP/BP 4.03 applies, the relevant safeguards classification and scope of safeguards work, and as well as subsequent processing and documentation requirements. For a Project supported by a Bank Guarantee, the Bank also decides on the key features of the guarantee structure, and whether to proceed to initiate negotiations with the Project Participant(s) to further develop such key features.³ The Bank decides whether to convey an expression of interest to potential Project Participant(s) of a Project proposed for support by a Bank Guarantee, including the preliminary terms and conditions of the Bank Guarantee, with relevant caveats.

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").

9. **Preparation Advances.** Management decides on the provision of a preparation advance ("PA") from the Project Preparation Facility and on its refinancing on the following basis:

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

11. One or more PAs may be made for an operation at any stage before the Bank approves the financing for the operation, up to an aggregate maximum amount of US\$6 million for the operation (or for each financing Investment Project Financing in a regional operation), with the exception of

³ Negotiations of a Bank Guarantee are normally an ongoing process, rather than a discrete step, and may be concluded following approval by the Executive Directors.



Projects ~~responding to situations in which the borrower is deemed covered~~ by the Bank to be in urgent need ~~paragraph 12~~ 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 (*Projects with Special Considerations*) of this BP, in which case the maximum amount of the PA is US\$10 million for each Project. Management informs the Executive Directors of approved PAs.

12. When a PA is not refinanced by the refinancing date ~~by an Investment Project Financing under a Bank Loan under IPF~~, Development Policy Financing, or Program-for-Results Financing, the Bank may prepare documentation for consideration of an extension ~~to~~ of the refinancing date. Management decides whether to provide the extension.

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

14. ***Retroactive Financing for Bank Loans.*** If requested by the ~~B~~borrower, the Bank may ~~agree to~~ provide retroactive financing under ~~the financing a Bank Loan~~. Retroactive financing may ~~only~~ 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 ~~financing Bank Loan~~ amount⁴ (40 percent for Projects ~~in situations under covered by~~ paragraph ~~11~~12 of OP10.00, ~~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 ~~B~~borrower not more than 12 months before the expected date of ~~legal agreement~~the signing ~~of the legal agreements for the Bank Loan~~.

From Concept through Appraisal

15. By the end of this stage, the Bank decides whether to proceed to ~~negotiation~~negotiations with the ~~B~~borrower on the provision of the ~~financing Bank Loan, or whether to continue negotiations with the Project Participant(s) on the provision of the Bank Guarantee~~. If decided at the concept stage, the appraisal stage may incorporate a decision point. The Bank: (a) works with the ~~B~~borrower ~~or the Project Participant(s)~~, as ~~the borrower prepares it (they) prepare(s)~~ 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. The Bank conducts its own appraisal, but may rely on evaluations of the Project conducted by IFC or MIGA or by other financiers of, or relevant parties involved in, the

⁴ In extraordinary circumstances, Management may approve exceptions to this limit.



Project whose evaluation capacity and procedures are satisfactory to the Bank. For any of the assessments listed below, the Bank may draw on evaluations by third parties, as appropriate.

16. **Technical Assessment.** The Bank assesses the Project's technical design or approach, and its appropriateness to the ~~borrower's needs~~Project's DOs. This work includes consideration of the ~~borrower's~~ organizational and managerial structures and capacity relevant to the Project, 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: (a) the Project's expected contribution to the country's socioeconomic development; (b) the rationale for the public sector provision; and (c) the value added of the Bank's support. For a Project supported by a Bank Guarantee, a financial viability analysis is also required. While these key questions are relevant for all analysis, the specifics take into account country circumstances, Project context, alternatives and risks, and 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, Procurement, and applicable environmental, social and other safeguard policies~~ (a) applicable Bank policies as set out in paragraphs 8 and 9 of OP 10.00; and (b) their associated BPs. Procurement in respect of Bank Guarantees is governed by the relevant paragraphs of the Procurement Guidelines and the Consultant Guidelines.⁵

20. **Fraud and Corruption.** ~~Investment Project Financing is~~ Bank Loans are subject to the Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants. Bank Guarantees are subject to the Anti-Corruption Guidelines for Guarantee and Carbon Finance Transactions.

21. **Risk Assessment.** The Bank analyzes the risks to the achievement of the Project's DOs.

⁵ "Guidelines: Procurement of Goods, Works and Non-consulting Services under IBRD loans, and IDA Credits and Grants by World Bank Borrowers"; and "Guidelines: Selection and Employment of Consultants under IBRD Loans and IDA Credits and Grants by World Bank Borrowers".



22. **Decision.** For ~~financing~~Investment Project Financing for which a decision on authorizing appraisal is required, once most Project design issues have been addressed, a decision is made—whether to appraise the Project, taking into account the above analysis and information on any known breaches by the Borrower or the Project Participant(s) of its (their) obligations to the Bank under existing Bank ~~financed-supported~~ operations—~~whether to proceed~~. For a Project supported by a Bank Guarantee, the Bank decides whether to appraisal-continue negotiations with the Project Participant(s).
23. **Prior to Appraisal.** The Bank discloses 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 eEnvironmental and sSocial impact assessment report is provided to Executive Directors before appraisal.⁶
24. **Appraisal.** The Bank appraises the Project to confirm any relevant Project and ~~financing~~Investment Project Financing information and resolveaddress any outstanding legal, design, and implementation issues. After appraisal, the Bank finalizes the draft Project documentation, including the draft legal ~~documentation-agreements for a Bank Loan financing the Project~~.
25. Generally, the following information is finalized by the Bank, following Project appraisal:
- the Project's definition, rationale, DOs, and scope, planned expenditures and their relation to country financing parameters⁷, financing requirements, and implementation and funds flow arrangements;
 - the results framework and the monitoring and evaluation arrangements;
 - 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;
 - information regarding the expenditures proposed ~~Bankto be~~ financed expendituresby the Bank Loan 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;
 - the main legal terms and conditions of the Bank Loan, and its disbursement arrangements as set out in a draft disbursement letter, including the provisions of the Bank's Disbursement Guidelines for Projects;

⁶ For Projects covered by OP/BP 4.03, the summary is disclosed in the manner provided in OP/BP 4.03.

⁷ Country financing parameters, which only apply to Projects financed by Bank Loans, provide the overall framework for cost sharing arrangements to be used, and the extent to which recurrent costs, local costs, and taxes and duties may be financed by the Bank, under Investment Project FinancingBank Loans in the country.



(f) cofinancing of the Bank Loan or other collaboration arrangements with ~~other~~ development partners and stakeholders;

~~(f)~~(g) the structure, the proposed risk coverage, and indicative terms and conditions of the Bank Guarantee; and

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

From Appraisal through Approval

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

27. **Negotiations of Bank Loans.** Management decides to authorize negotiations of the financing, a Bank Loan 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 the Borrower conduct the negotiations and seek to finalize agreement on the relevant issues and documentation. If new substantive issues or significant changes in the design of the financing Bank Loan are raised during the negotiations, based on a consideration of these issues, Management decides whether to proceed.

28. **Bank Loan Approval.** For financing Bank Loans 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 for the Bank Loan, and Management decides on their submission to the Executive Directors.

29. **Bank Guarantee Approval.** Management may seek approval by the Executive Directors of the Bank Guarantee before negotiations have been completed. If the completion of negotiations results in substantial changes to the Bank Guarantee previously approved by the Board, Management resubmits the proposal to the Executive Directors for approval of the changes. Details on the financing requirements and implementation arrangements of the Project supported by the Bank Guarantee may be finalized after approval.

30. **Presentation to the Executive Directors.** If any information in the Project documents raises issues of confidentiality or sensitivity for the Borrower, or Project Participant(s), or may adversely affect relations between the Bank and the Borrower, or, in the case of a Bank Guarantee, the member country, 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 documents and is described in the memorandum of the President instead. When there are: (a) payments under any IBRD loan or IDA credit to the Borrower, or to or guaranteed by the member country, that are overdue by 30 days; or (b) payments due by the member country under any Member Country Indemnity that are overdue by 30 days; Project documents are not submitted to the Executive



Directors unless an exception is granted by Management. After all requirements for [Board presentation to the Executive Directors](#) have been met, the Executive Directors decide whether to approve the proposed [financing Investment Project Financing](#).

29.31. *Approval by Management.* Management decides whether to approve [financings any Investment Project Financing](#) that ~~does~~ not require approval by the Executive Directors.

B. *Implementation Support and Monitoring*

30.32. The implementation support and monitoring phase starts after approval of the Project, and includes signing [and effectiveness](#) of the Project's legal agreements, ~~effectiveness, borrower, Project~~ implementation and completion, ~~and~~ closing of the [financing Bank Loan](#) account, ~~and reporting~~.

31.33. *Bank Loan Signing.* After approval of ~~the Investment Project Financing~~ [a Bank Loan](#), the Bank arranges for signing of the legal agreements as soon as the signing requirements are met. ~~If~~ the legal agreements are not signed within 18 months following approval, the Bank normally withdraws the offer of the [financing Bank Loan](#). Exceptionally, Management may decide to provide the ~~B~~orrower with additional time to sign.

32.34. *Bank Loan Effectiveness.* The legal agreements [for a Bank Loan](#) terminate if the conditions for their effectiveness, if any, are not met by the date specified in the agreements. When warranted, Management may decide to extend the effectiveness deadline; normally the deadline is not extended beyond 18 months after ~~the financing~~ [Bank Loan](#) 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 agreements effective or to extend the effectiveness deadline is taken before the expiration of the effectiveness deadline. Exceptionally, if the legal agreements [for the Bank Loan](#) have terminated for failure to become effective by the effectiveness deadline, Management may decide to reinstate such agreements with the ~~B~~orrower's agreement.

35. *Bank Guarantee Signing and Effectiveness.* [The legal agreements for a Bank Guarantee are signed after approval of the Bank Guarantee and completion of negotiations. If the legal agreements are not signed within 24 months following Board approval, the Bank normally withdraws the offer of the Bank Guarantee. Exceptionally, Management may decide to provide the relevant Project Participant\(s\) with additional time to sign. Legal agreements for Bank Guarantees become effective in accordance with their terms.](#)

33.36. *Informing the Executive Directors.* ~~For financings approved by the Executive Directors,~~ Management informs the Executive Directors, as part of regular operational reporting, of the following [matters related to Investment Project Financing approved by the Executive Directors](#): (a) signing delays of more than ~~six~~6 months following [Bank Loan](#) approval, ~~and more than 18 months following Bank Guarantee approval~~; (b) withdrawals of the financing offer; (c) effectiveness



deadlines; (d) effectiveness delays of more than nine months after approval by the Executive Directors of a Bank Loan, and, of more than 36 months after approval of a Bank Guarantee; (e) legal agreements that terminate for failure to become effective; and (f) terminated legal agreements that have been reinstated.

34.37. Extensions Following Changes in Conditions Prior to Signing or Effectiveness of Bank Loan. If an extension of the deadline for signing or effectiveness involves a substantial departure from the conditions under which the financing Bank Loan was originally approved, the legal agreements are not signed or declared effective until Bank approval of the new conditions is obtained, through a restructuring.

35.38. Borrower's Role. The Borrower is responsible for implementing the Project, monitoring its progress, evaluating results on completion, and meeting the relevant its contractual obligations set out or referred to in the legal agreements with the Bank. Unless otherwise agreed by the Bank, the Borrower furnishes annual audited Project financial statements six months after the close of the Borrower's financial year and unaudited interim financial reports periodically. Audits are carried out by auditors with independence and capacity acceptable to the Bank, under terms of reference acceptable to the Bank.

39. Project Participants' Roles. The relevant Project Participant(s) is (are) responsible for implementing the Project supported by a Bank Guarantee, monitoring its progress and completion, and meeting its (their) contractual obligations set out or referred to in the legal agreements. The member country is responsible for evaluating results on completion of the Project. The Bank: (a) may accept audited financial statements provided by the relevant Project Participant(s) in accordance with their legal agreements relating to the Project; and (b) may rely on lender assessments of the financial reports of the Project Participant(s).

39.40. Bank's Role. In providing implementation support, the Bank pays particular attention to reviewing the borrower's monitoring by the Borrower or Project Participant(s) of the performance of the Project and the borrower's compliance with its contractual undertakings. The Bank periodically assesses the Project, and reviews the borrower's monitoring by the Borrower or Project Participant(s) 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. The Bank stops monitoring a Project supported by a Bank Guarantee following completion of the Project, but continues monitoring legal covenants and risks that could lead to a possible call on the Bank guarantee, until the Bank Guarantee Expiration Date

37.41. Bank Loan Disbursements and Suspension of Disbursements. After the legal agreements for a Bank Loan have been declared effective, the Bank disburses the proceeds of the financing Bank Loan in accordance with the terms and conditions set out in the legal agreements and in the disbursement letter. If the Bank decides to suspend disbursements, items whose exemption from suspension is, in the Bank's judgment, in the interest of the Project, 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 pay made by the Bank to third parties at the **B**orrower's request are always exempted.

38.42. Cancellation of Bank Loan Amounts. The **B**orrower or the Bank may decide to cancel an unwithdrawn amount of ~~the financing~~ **Bank Loan** in accordance with the provisions of the legal agreements. When the **B**orrower decides to cancel an amount of the ~~financing~~ **Bank Loan** and gives notice to the Bank, the cancellation is effective as of the date of receipt of the **Borrower's** ~~notice~~**request**. The Bank does not accept requests for retroactive cancellations.

39.43. If the Bank cancels an amount of ~~the financing~~ **Bank Loan**, the cancellation is effective as of the date of the **Bank's** notice, except in the case of cancellation of the remaining unwithdrawn balance of ~~financing~~ **Bank Loan** after the Closing Date, in which case the cancellation is effective on the latest of: (a) ~~the~~ Closing Date; (b) the final date for receipt of withdrawal applications by the Bank; or (c) ~~the~~ final date the ~~financing~~ **Bank loan** account was charged for a disbursement or credited for a refund.

44. Suspension, Cancellation and Termination of Bank Guarantees. Suspension, cancellation and/or termination of a Bank Guarantee follow the relevant provisions of the legal agreements.

40.45. Restructuring. If the **B**orrower ~~or a Project Participant~~ proposes changes to the Project or ~~financing~~ **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 agreements or, if so established in the original legal agreements, by written notice to the **B**orrower. 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.

41.46. Closing Date. During Project implementation, the Bank monitors the approach of the Closing Date and works with the **B**orrower ~~or Project Participant(s)~~ to ensure that closing procedures ~~as~~ set out below are followed. After completion, the Bank prepares a report evaluating the performance of the Project.

47. Extension of Closing Date. Upon a request from the **B**orrower ~~or Project Participant(s)~~, the Bank may decide to extend the Closing Date if: ~~(a) the Project's DOs remain achievable;~~ ~~(b)~~ the performance of the **B**orrower ~~or Project Participant(s)~~ remains satisfactory; and ~~(c)~~ the Bank and the **B**orrower ~~or Project Participant(s)~~ agree on actions that will be undertaken by the **B**orrower ~~or Project Participant(s)~~ to complete the Project. The Bank processes the extension as a restructuring.

43.48. Withdrawals after the Loan Closing Date. The Bank may decide, without formally extending the **Loan** Closing Date, to disburse or approve the use of proceeds of ~~the financing for a~~ **Loan under** withdrawal applications received within four months after the **Loan** Closing Date for



payments made or payments due for eligible expenditures incurred prior to the [Loan](#) Closing Date. Exceptionally, [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 [financingBank Loan](#) the cost of a final audit that will be completed after the [Loan](#) Closing Date.

44.49. *Closing the [FinancingBank Loan](#) Account.* The Bank closes the [financingBank Loan](#) 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 [Loan](#) Closing Date. Any undisbursed balance of the [financingBank Loan](#) is cancelled. The Bank notifies the [Borrower](#) of the final disbursement status of the [financingBank Loan](#) account and the cancellation of any undisbursed balance.

45.50. *Investment Project [FinancingsBank Loans](#) under Suspension of Disbursements.* If a suspension of disbursements [of a Bank Loan](#) is in effect on the [Loan](#) Closing Date, any unwithdrawn [financing](#) balance [of the Bank Loan](#) is normally canceled, and the [financingBank Loan](#) account is closed. Exceptionally, Management may decide to authorize a delay in canceling the [financing](#) balance and closing the [financingBank Loan](#) 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 [Loan](#) Closing Date.

51. *[Extension of Bank Guarantee Expiration Date.](#)* [The Bank, in agreement with the Project Participant\(s\), may decide to extend the Bank Guarantee Expiration Date, provided the Project's DOs remain achievable, and the performance of the Project Participant\(s\) remains satisfactory. The Bank processes the extension as a restructuring.](#)

46.52. *Investment Project Completion Report.* After the completion of the Project, or in certain cases of additional financing (as described in [paragraph 52Section D \(Additional Financing\)](#) of this BP) or in certain cases [ofinvolving a series of Pprojects](#), prior to the Project's completion, the Bank prepares an implementation completion and results report ("ICR"). The ICR covers, among other things, the degree to which the Project's DOs and results have been achieved and the overall Project performance, taking into consideration the Project's operating environment [and, for a Bank Guarantee, its impact in mobilizing private sector financing for the Project.](#) The ICR incorporates the [borrower's](#) evaluation [by the Borrower or Project Participant\(s\)](#) of the Project, [as well as of its own\(their\)](#) 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 [offollowing](#) Project completion, and may decide to authorize an extension [of time](#) for the completion of the ICR and its submission to Executive Directors.

C. *Projects with Special Considerations*

47.53. *Exceptional Arrangements in Situations of Urgent Need of Assistance or Capacity Constraints.* The [Borrower or member country](#) may request the use of exceptional arrangements for [a financingan Investment Project Financing](#) as set out in OP 10.00, paragraph [4412](#). If



Management determines that the Borrower or member country 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, the Project documentation sets out the relevant capacity-building measures planned for timely transfer of implementation activities to the Borrower or member country; 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.

48.54. Series of Sequential Projects. ~~In cases of single-borrower sequential Projects,~~ Such series involve, for Bank Loans, a single Borrower; or, for Bank Guarantees, a single Member Country or Implementing Entity. In addition to regular requirements, the documentation for the first Project in these series 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 or guarantee envelope for the entire series. Subsequently, each Project in the series is prepared and appraised individually, taking into account the performance to date of the preceding Project(s) in the series.

49.55. In the case of a multi-borrower sOther Series of Projects. For all series of Projects other than those described in paragraph 54 above, the documentation for the first ~~financing~~Project in ~~the~~such series sets out the rationale for the series, an indicative funding or guarantee envelope, and the similar criteria and/or the common design features for the series, as applicable.

50.56. Financial Intermediary Financing. If ~~a financing~~an Investment Project Financing is proposed to be made ~~to~~in support of 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.

51.57. Small Projects. For a Project financed by the Bank under a recipient-executed trust fund 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

52.58. When additional financing is requested by the Borrower or Project Participant(s) 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 of the Project to date. The Bank prepares documentation for [the](#) additional financing, including an updated appraisal-stage PID and, [as applicable, an](#) ISDS (covering the original Project and the new activities) for a decision point on appraisal and negotiations. Additional financing is provided through an amendment to the original legal agreements and/or new legal agreements. The legal agreements are signed before the Closing Date of the original [financing-Investment Project Financing](#). The ICR for the original [financing-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 negotiations 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.

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Note: This OP/ and BP 8.60, Development Policy Lending, which together replace OP/BP 8.60, Development Policy Lending/Financing, were revised/updated on April 2013, 2013, to take into account/reflect the recommendations in “Investment Lending Reform: Modernizing and Consolidating Operational Policies and Procedures (R2012-0204) [Title of Board paper proposing guarantees mainstreaming (R---- [IDA/R2012-0248]), R]], which were approved by the Executive Directors on October 25, 2012, 2012. As a result of these recommendations, the following OP/BPs/OP and BP 14.25, Guarantees, have been retired and their content reflected in this OP/BP: OP/BP 12.00, Disbursement; OP/BP 13.00, Signing of Legal Documents and Effectiveness of Loans and Credits; OP/BP 13.30, Closing Dates; OP/BP 13.40, Suspension of Disbursements; and OP/BP 13.50, Cancellations (and related Operational Memoranda).

Development Policy operations are governed by this OP/BP, and the following OPs and BPs (including any relevant Operational Memoranda ~~and~~, Instructions and Guidance Notes [internal use only]), as applicable: [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 4.07, Water Resource Management](#); [OP/BP 4.20, Gender and Development](#); [OP 4.76, Tobacco](#); [OP 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 7.60, Projects in Disputed Areas](#); [OP/BP 8.45, Grants](#); [OP/BP 10.20, Global Environmental Facility Operations](#); [OP/BP 11.00, Procurement](#); [OP/BP 13.16, Country Portfolio Performance Reviews](#); [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](#); and [BP 17.55, Inspection Panel](#).

Questions on Development Policy Financing/Lending may be addressed to the [OPCS Help Desk](#).

Development Policy Lending/Financing

1. Development policy lending is rapidly disbursing policy-based financing, which the The Bank¹ provides development policy financing (“Development Policy Financing” or “DPF”) in the form of loans, credits, or grants to help a borrower/policy-based Bank Loan² or a policy-based Bank

1. –“Bank” includes IBRD and IDA, “loans” includes credits and IDA grants, and “borrower” includes borrower, IDA grant recipient, and, except as the context may otherwise require, political subdivision, when a loan is provided to, or for the benefit of, a political subdivision. “Political subdivisions” refers to political entities that have budget authority and legislative competence for the actions supported by the development policy operation; it does not refer to public enterprises. “Country Assistance Strategy (CAS)” includes Country Partnership Strategy (CPS). In this OP, unless the context requires otherwise, the term: (a) “Bank” means IBRD and/or IDA (whether acting for its own account or as administrator of trust funds funded by donors); (b) “Country Assistance Strategy (CAS)” includes a country partnership strategy (CPS) and an interim strategy note (ISN); (c) “Member Country” means a member country of the Bank; and (d) “Political Subdivision” means a political or administrative entity of a member country with the budget authority and legal competence required to implement the actions supported by a DPF; but the term “Political Subdivision” does not include a public enterprise. Throughout this OP and where relevant, references to Member Country apply equally to its Political Subdivision if the DPF is made to, or guarantees, a debt of the Political Subdivision.
2. In this OP, unless the context requires otherwise, the term: (a) “Bank Loan” means a loan, credit or grant made by the Bank from its own resources or from trust funds administered by the Bank, or a combination of these; and (b) “Member Country Guarantee” means a guarantee provided by a Member Country to the Bank in connection with a Bank Loan.

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Guarantee.³ A DPF is aimed at helping a Member Country address actual or anticipated development financing requirements that have domestic or external origins. The Bank may provide ~~development policy lending to a member country or to a political subdivision of a member country~~ a Bank Loan to a Member Country or to one of its Political Subdivisions; and it may provide a Bank Guarantee of debt incurred by a Member Country or by one of its Political Subdivisions.⁴

Considerations in Providing for Development Policy Lending Operations

2. ~~Development policy lending aims to help~~ *General:* Through development policy operations, the Bank supports a borrower achieve sustainable reductions in poverty through a Member Country's program of policy and institutional actions that promote growth and ~~enhance the well-being and increase the incomes of poor people~~ sustainable poverty reduction. Development policy operations are supportive of, and consistent with, the ~~country's~~ Member Country's economic and sectoral policies and institutions aimed at ~~accelerated~~ broad-based sustainable growth and efficient resource allocation. They typically support a program of policy and institutional actions, for example, to improve the investment climate, diversify the economy, create employment, ~~improve public finances, strengthen service delivery,~~ and meet applicable international commitments. Any Investment Project Financing or Program-for-Results Financing subcomponent included in a ~~development policy operation~~ DPF is subject to the relevant operational policies for Investment Project Financing and Program-for-Results Financing, respectively.⁵

3. *Lending Financing Criteria and Selectivity.* ~~The appropriateness of providing development policy lending to a country is determined in the context of the Country Assistance Strategy (CAS).~~ The Bank's decision to extend ~~development policy lending~~ a DPF is based on an assessment of the ~~country's~~ Member Country's policy and institutional framework—including ~~the country's~~ its economic situation, governance, environmental/natural resource management, and poverty and social aspects. The Bank considers the strength of the program ~~proposed for support~~ and the ~~country's~~ Member Country's commitment to, and ownership of, the program against its track record. It also assesses the ~~country's~~ Member Country's institutional capacity and ability to effectively implement the program to be supported and describes the country's capacity-building efforts.

3. ~~In this OP, unless the context requires otherwise, the term: (a) "Bank Guarantee" means a guarantee, provided by the Bank, of financing extended by private entities; and (b) "Member Country Indemnity" means the counter-guarantee and indemnity provided by a Member Country to the Bank in connection with a Bank Guarantee.~~

~~2.4. The~~ If a Bank may lend ~~Loan is made to a political subdivision with a member guarantee or to~~ Political Subdivision of a Member Country: (a) ~~the member country with arrangements for on lending to the subdivision. The political subdivision must~~ Political Subdivision is required to have the ~~requisite legal power~~ authority necessary to borrow directly from ~~the Bank, and/or to enter a contractual relationship with~~ into an agreement with, the Bank; and (b) ~~the Member Country provides the Bank; see with a Member Country Guarantee. A Bank Guarantee provided to guarantee the debt of a Political Subdivision requires a Member Country Indemnity. See OP 7.00, Lending Operations: Choice of Borrower and~~ [Bank Loans and Guarantees: Contractual Agreements]. If a Bank Loan is made to a Political Subdivision or a Bank Guarantee is made to guarantee the debt of a Political Subdivision, the considerations and requirements applicable to the Member Country set out in this OP apply equally to the Political Subdivision, as relevant.

~~3.5.~~ See OP/BP 10.00, Investment Project Financing, and OP/BP 9.00, Program-for-Results Financing.

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4. ~~Volume/Share.~~ The expected total volume or share of development policy lending for a borrower is determined in the CAS, taking the following factors into consideration:

5. ~~(a) the country's financing requirements, given the actions necessary to achieve the expected results of the program, the costs of the program, the size and disbursement profile of the Bank's lending program, and other financing available;~~

6. ~~(b) for IDA borrowers, the country's relative allocation of available concessional resources; and for IBRD borrowers, the country's exposure to IBRD in the context of creditworthiness and risks;~~

7. ~~(c) the borrower's overall debt sustainability, based on an assessment of the expected impact of development policy program on the debt condition of the country; and~~

8. ~~(d) the country's absorptive capacity.~~

9.4. ~~Macroeconomic Framework.~~ The Bank ~~undertakes development policy lending in a country, and releases each tranche of the financing, provides a DPF for a Member Country or its Political Subdivision~~ only when it has determined that the ~~country's~~ Member Country's macroeconomic policy framework is adequate.⁶ ~~For development policy lending to~~ If the DPF is made as a Bank Guarantee of debt of an IDA Member Country or its Political Subdivision, the Member Country must also have low risk of debt distress and comply with applicable Bank policies relating to non-concessional borrowing. In addition, if the DPF is a ~~political subdivision, the entity~~ Bank Loan to a Political Subdivision or a Bank Guarantee guaranteeing the debt of a Political Subdivision, the Political Subdivision must have an adequate expenditure program, sustainable debt, and adequate fiscal arrangements with the central government ~~and/or with the applicable political subdivisions~~ in accordance with the country's constitutional and legislative framework.

10.5. ~~Consultations and Participation.~~ In carrying out dialogue with ~~borrowing countries~~ Member Country, the Bank advises ~~them~~ it to consult with and engage the participation of key stakeholders in the country in the process of formulating ~~the country's~~ sits development strategies.⁷ For a development policy operation, the ~~country~~ Member Country draws on this process of strategy formulation to determine, in the context of its constitutional and legislative framework, the form and extent of consultations and participation in preparing, implementing, and monitoring and evaluating the operation. ~~Bank staff describe in the~~ The Bank's program document ("Program Document ~~the country's~~ " or "PD") describes the Member Country's arrangements for consultations

4.6. The presence of an IMF program is usually an important input in this determination. If there is no ~~Fund~~ IMF arrangement, Bank staff ascertain, before making their own assessment, whether the ~~Fund~~ IMF has any major outstanding concerns about the adequacy of the country's macroeconomic policies. Issues relevant to the adequacy of the macroeconomic policy framework raised by the IMF are communicated to Executive Directors through the ~~Fund relations annex in the program document. Staff may refer to internal~~ Guidance Notes on Development Policy Lending for additional information and guidance. ~~IMF's "Fund Relations Note" attached as an annex in the Bank's Program Document.~~

5.7. Key stakeholders include social groups directly affected by the operations, as well as public sector, private sector, and donor organizations relevant to the operation. Country strategies include the Poverty Reduction Strategy Paper (PRSP) process in IDA countries or the country's overall or sectoral development strategy in IBRD countries. ~~Staff may refer to internal~~ Guidance Notes on Development Policy Lending for additional information and guidance.

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and participation relevant to the operation, and the outcomes of the participatory process adopted in formulating the ~~country's~~Member Country's development strategy. Relevant analytic work conducted by the Bank, particularly on poverty and social impacts and on environmental aspects, is made available to the public as part of the consultation process, in accordance with the Bank's [Policy on Access to Information](#).

~~11.6.~~ Coordination with Development Partners. In preparing development policy operations, the Bank collaborates with the IMF and other international financing institutions and donors, as appropriate, while retaining responsibility for its financing decisions.

Design of Development Policy Operations

~~12.7.~~ Development Objectives. The Executive Directors consider and approve each ~~development policy operation~~DPF as meeting the special circumstances provision of the Bank's Articles of Agreement. In addition, the Executive Directors consider and approve each DPF in the form of a Bank Guarantee of debt of an IDA Member Country or its Political Subdivision as meeting the special cases provision of IDA's Articles of Agreement.⁸ The Program Document sets out the ~~country's~~Member Country's program being supported by the Bank and the associated expected specific results~~expected from the resource transfer.~~ The program design includes measurable indicators for monitoring ~~progress during implementation~~ and evaluating ~~outcomes~~the results on completion.

~~13.8.~~ Analytic Underpinnings. A development policy operation draws on relevant analytic work on the ~~country~~Member Country undertaken by the Bank, the ~~country~~Member Country, and third parties—for example, as appropriate, analyses of the ~~country's~~Member Country's economy wide or sectoral policies and institutions aimed at stimulating investment, creating employment, and accelerating and sustaining growth, as well as analyses of the poverty and social impacts of proposed policies,⁹ environment and natural resource management,¹⁰ governance and public expenditure management, procurement, and financial accountability systems. ~~Drawing on a consultative process, the CAS assesses the adequacy of analytic work on the country and indicates how gaps will be addressed.~~ The Program Document describes the main pieces of analytic work used in the preparation of the operation and shows how they are linked to the proposed development policy program.

~~6.8.~~ The Bank's Articles of Agreement provide that ~~Bank~~ loans made or guaranteed by the Bank should finance specific projects—"except in special circumstances."⁷ IBRD Articles, Article III, Section 4 (vii); and. See also IDA Articles, Article V, Section 1 (b). IDA's Articles of Agreement provide that "in special cases" IDA guarantees loans from other sources for purposes not inconsistent with the provisions of the Articles. See Article V Section 5(iv).

~~7.9.~~ For guidance on poverty analysis, see [OP 1.00, Poverty Reduction](#). For specific guidance on analyzing distributional effects, staff may refer to the ~~User's Guide on Poverty and Social Impact Analysis~~.

~~8.10.~~ See the sections on Country Environmental Analysis and Strategic Environmental Assessment in the Analytic and Advisory Assistance section of the [World Bank Environment website](#).

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14.9. *Poverty and Social Impacts.* The Bank determines whether specific ~~country~~ policies supported by the operation are likely to have significant poverty and social consequences, especially on poor people and vulnerable groups.¹¹ For ~~country~~ policies with likely significant effects, the Bank summarizes in the Program Document relevant analytic knowledge of these effects and of the ~~borrower's~~ Member Country's systems for reducing adverse effects and enhancing positive effects associated with the specific policies being supported. If there are significant gaps in the analysis or shortcomings in ~~the borrower's~~ these systems, the Bank describes in the Program Document how such gaps or shortcomings would be addressed before or during program implementation, as appropriate.

15.10. *Environmental, Forests, and other Natural Resource Aspects.* The Bank determines whether specific country policies supported by the operation are likely to cause significant effects on the ~~country's~~ Member Country's environment, forests, and other natural resources. For ~~country~~ policies with likely significant effects, the Bank assesses in the Program Document the ~~borrower's~~ Member Country's systems for reducing such adverse effects and enhancing positive effects, drawing on relevant country-level or sectoral environmental analysis. If there are significant gaps in the analysis or shortcomings in ~~the borrower's~~ these systems, the Bank describes in the Program Document how such gaps or shortcomings would be addressed before or during program implementation, as appropriate.

16.11. *Program Funding and Size of Operation.* The Bank extends a ~~development policy loan~~ DPF only when the overall program is adequately funded, considering both domestic and external sources of finance. The size of each ~~development policy operation~~ DPF is determined individually on the basis of ~~country~~ the Member Country's circumstances, including the overall projected financing requirements at the time of the operation, the availability of alternative financing, debt sustainability, creditworthiness and IBRD exposure (for IBRD borrowers) or relative claim on available concessional resources (for IDA countries). The financial costs and benefits, improvement of access to private financing, and financial leverage of Bank resources, among other considerations stated in this OP, are important factors in deciding the form of DPF.

17.12. *Conditions.* The Bank determines which of the policy and institutional actions the ~~country~~ Member Country has ~~agreed~~ committed to take are critical for the implementation and expected results of the program supported by the development policy operation. ~~The Bank makes approval of the funds available~~ DPF is subject to the borrower upon maintenance of an adequate macroeconomic policy framework, implementation of the overall program in a manner satisfactory to the Bank, and compliance with ~~these critical program conditions~~ the program's prior actions. Disbursement under a Bank Loan¹², and signing of each agreement providing for a Bank Guarantee, is conditioned on: (a) satisfactory implementation of the program supported by the DPF, including compliance with the program's prior actions and tranche release conditions (in the case of

9.11. For ~~internal guidelines~~ guidance to assist in the application of OP and [BP 8.60](#), including possible criteria for the selection of policies for analysis, staff may refer to the *Good Practice Note on Using Poverty and Social Impact Analysis to Support Development Policy Lending/Financing*.

12. For disbursements of Bank Loans with a deferred drawdown option for catastrophic risk see [paragraph 22](#).

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a multi-tranche Bank Loan); and (b) maintenance of a satisfactory macroeconomic policy framework. The Bank seeks to harmonize these conditions with those of other development partners in consultation with the ~~country~~ Member Country.

~~18.13. *Franching. Development Operational Structure.* All development policy lending operations are embedded in an explicit medium-term framework and are based on adequate prior policy and institutional actions. DPF in the form of a Bank Loan may be provided in one or more tranches, depending on the country's Member Country's policy environment and capacity, the country's financing requirements and other available financing, and the content and phasing of the program being supported by the development policy operation. Development policy operations following a programmatic approach consist of a series of operations within a medium-term framework of policy and institutional actions.¹³ Self-standing single-tranche development policy operations are embedded in an explicit medium-term framework and are based on adequate prior policy and institutional actions. For all operations, tranche release depends on the maintenance of an adequate macroeconomic policy framework and the satisfactory completion of tranche conditions.~~

14. *Bank Guarantees.* A Bank Guarantee covers a Member Country's (or its Political Subdivision's) debt service defaults. The Bank only provides guarantees to the extent necessary to mobilize private financing, taking into account country and market circumstances. The Member Country requesting the Bank Guarantee provides a Member Country Indemnity¹⁴ to the Bank. The portion of debt guaranteed by the Bank is not subject to debt rescheduling or debt restructuring without the Bank's consent.

~~19.15. *Risk Management.* The borrower Member Country is responsible for managing operational risks affecting the development effectiveness of the development policy operation. The Bank independently identifies the financial and nonfinancial risks associated with the program supported and ensures, when possible, that the operation contains appropriate mitigation measures and monitorable indicators to track high probability risks.~~

~~20.16. *Implementation, Monitoring, and Evaluation.* The borrower implements the development policy operation. Member Country monitors progress during the implementation, of the program supported by the development policy operation, and evaluates results on completion. The Bank staff assesses and monitors the adequacy of the arrangements by which the borrower Member Country will carry out these responsibilities, with due regard to the country's Member Country's capacity. In addition, the Bank staff review reviews implementation progress during supervision to verify fulfillment of program conditions and compliance with legal covenants of the legal agreements with the Bank, and to validate monitoring and evaluation findings.~~

~~10.13.~~ This approach involves (a) clear, monitorable indicators with quantitative baselines and targets, whenever possible, (b) indicative prior actions (or triggers) for the subsequent operations in the series, and (c) notional timing and amounts of subsequent operations.

14. The Indemnity is provided by the Member Country, not its Political Subdivision, even if the debt guaranteed is that of the Political Subdivision. If the Bank Guarantee is funded under a trust fund, and the constituent documents of the trust fund permit, the Bank may forego the requirement of a Member Country Indemnity.

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Supervision includes a focus ~~on~~ development impact, assessing the ~~changes in outputs and outcomes resulting from results of~~ the operation.

Fiduciary Arrangements for a Development Policy Operation

~~21.17.~~ Drawing on relevant analysis of the ~~country's~~ Member Country's public financial management system, the Bank determines whether the operation should include measures to address identified fiduciary weaknesses.

~~22.18.~~ ~~*Disbursements.* Development policy lending funds are disbursed against satisfactory implementation~~ Use of Funds. For a Bank Loan, the development policy lending program, including compliance with tranche release conditions and maintenance of a satisfactory macroeconomic policy framework. ~~The borrower commits~~ Member Country undertakes not to use the proceeds of development policy lending ~~the Bank Loan~~ for expenditures excluded under the ~~loan agreement~~ legal agreements with the Bank.¹⁵ The Bank normally disburses the ~~loan~~ proceeds of the Bank Loan into an account that forms part of the country's official foreign exchange reserves (normally held by the central bank), and an amount equivalent to these proceeds is credited to an account of the government to finance budgeted expenditures. Similarly, for a Bank Guarantee, the Member Country undertakes to use the proceeds of the financing supported by the Bank Guarantee exclusively for budgeted expenditures other than those excluded under the legal agreements.¹⁶

~~23.19.~~ *Fiduciary Arrangements.* The Bank focuses on the ~~borrower's~~ Member Country's overall use of foreign exchange and budget resources as follows:

- (a) *Foreign exchange.* ~~The~~ Bank ~~staff review, reviews~~ and ~~discuss~~ discusses with IMF staff as appropriate, the IMF's most recent assessment of the ~~borrower's~~ Member Country's central bank. When the assessment shows that the control environment of the central bank is satisfactory, or reveals issues for which the ~~borrower has agreed~~ Member Country plans to take remedial actions that are monitored by the IMF, the Bank takes no further action.
- (b) *Budget resources.* The Bank reviews the ~~country's~~ Member Country's public financial management and procurement arrangements through diagnostic work and through

~~11.15.~~ ~~*Excluded*~~ For Bank Loans, excluded expenditures consist, among others, of goods and services financed by another domestic or international financial institution or agency or by the Bank under another loan, alcoholic beverages, tobacco products, luxury items, military goods, radioactive materials and nuclear reactors, environmentally hazardous goods, payments prohibited by UN Security Council decisions under Chapter VII of the UN Charter and expenditures with respect to which the Bank determines that corrupt, fraudulent, collusive or coercive practices were engaged in by any recipient of the loan proceeds without satisfactory action having been taken to address such practices when they occur.

16. Excluded expenditures in the case of financing supported by a Bank Guarantee are essentially the same as those for Bank Loans.

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reports prepared by the ~~borrower~~ Member Country and others, including published annual audit reports of the central bank and of the government.¹⁷

These reviews inform Bank decisions on the ~~amounts~~ amount of ~~development policy operations~~ the DPF, tranching of the Bank Loan, program content, conditionality, and risk mitigation measures. When the analysis identifies weaknesses in the ~~borrower's~~ central bank's control environment or budget management system, or when an acceptable action plan to deal with identified weaknesses is not in place, the Bank identifies the additional steps needed to secure acceptable fiduciary arrangements for ~~development policy lending~~ the DPF: for example, requiring dedicated accounts for ~~loan~~ Bank Loan proceeds or counterpart funds, and having a right to request an audit of ~~these~~ dedicated accounts. ~~The Bank may also agree with the borrower on the specific uses of loan proceeds or counterpart funds.~~

Options

~~24.20.~~ A development policy operation DPF may include one or more options that have specific requirements.

Deferred Drawdown under Bank Loans

~~25.21.~~ A regular deferred drawdown option (DPL-DDO) or deferred drawdown option for catastrophic risks (Cat DDO) allows a borrower the Member Country to postpone drawing down a Bank Loan for a defined drawdown period after the Loan Agreement loan agreement has been declared effective.

~~26.22.~~ Eligibility, Drawdown Period, and Conditions. IBRD-eligible ~~borrowers~~ Member Countries may defer disbursement of ~~a single or multiple tranche development policy loan~~ the Bank Loan for up to three years. During this time, the ~~borrower~~ Member Country must continue to implement ~~its development~~ the program being supported in accordance with its Letter of Development Policy (LDP) and, for a DPL-DDO, must maintain an adequate macroeconomic policy framework. For a DPL-DDO, the drawdown is available upon the ~~borrower's~~ Member Country's request; for a Cat DDO, the drawdown is available only if a pre-specified trigger linked to a natural catastrophe—typically the ~~borrower's~~ Member Country's declaration of a state of emergency—has been met. All specific conditions of disbursement for a ~~development policy loan~~ Bank Loan with a DDO option (whether a DPL-DDO or Cat DDO) must be met before Board presentation and before tranche release approval for ~~a multiple-tranche loans, non~~ Bank Loan; none are included as effectiveness conditions in the ~~Loan Agreement~~ legal agreement.

~~27.23.~~ Financial Terms Deferral and Renewal. A ~~development policy loan~~ Bank Loan with a DPL-DDO or Cat DDO option includes a ~~deferment~~ deferral period of up to three years. ~~The repayment~~

~~42.17.~~ For a ~~development policy operation~~ DPF to or for the benefit of a ~~political subdivision~~ Political Subdivision, the Bank reviews the financial management and procurement arrangements of the country, of the ~~subdivision~~ Political Subdivision, and of other applicable subdivisions, in accordance with the country's constitutional and legislative framework.

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term, including the grace period, may be determined at, and commences from the time of, disbursements. A ~~DPL~~ DDO or Cat DDO may be renewed if the ~~country's~~ Member Country's implementation of the program ~~laid set~~ out in its LDP remains satisfactory. A ~~DPL~~ DDO may be renewed once for up to three additional years. A Cat DDO may be renewed four times for up to three years each time, for a total ~~deferment~~ deferral of 15 years. Cat DDO amounts repaid during the ~~deferment~~ deferral period are again available for drawdown.

Special Development Policy ~~Lending~~ Financing

~~28.24.~~ *For IBRD-eligible ~~countries~~ Member Countries that are approaching, or are in, a crisis with substantial structural and social dimensions, and that have urgent and extraordinary financing needs, the Bank may, on an exceptional basis, provide special ~~development policy lending~~ DPF. The magnitude of such financial support is subject to the availability of adequate IBRD financial and risk-bearing capacity.*

~~29.25.~~ *Design and Eligibility Criteria.* To be eligible for special ~~development policy lending~~ DPF, the ~~country~~ Member Country must have a disbursing IMF-supported program in place. Special ~~development policy lending~~ DPF must be part of an international support package—which may include multilaterals, bilateral donors, and private lenders and investors—of structural, social, and macroeconomic policy, with conditionality embedded in a strong policy program. The Bank determines that the ~~country's~~ Member Country's external financing plan is sustainable, and ascertains that the special ~~development policy lending~~ DPF and its associated debt service are within medium-term debt sustainability limits. A special ~~development policy loan~~ DPF in the form of a Bank Loan may have one or more tranches.

~~30.26.~~ *Financial Terms.* The financial terms of special ~~development policy lending~~ DPF reflect the special nature and high risks of ~~lending~~ financing for crisis support.

Supplemental ~~Development Policy~~ Financing

~~31.27.~~ *In exceptional cases, the Bank may provide a separate supplemental financing—a separate ~~loan~~ DPF additional to the ~~loan provided for in the original Loan Agreement~~ DPF—in support of the objectives of the program supported by the original DPF and under implementation. ~~Supplemental financing~~ A supplemental DPF may be provided for a development policy operation for which an unanticipated gap in financing jeopardizes a reform program that is otherwise proceeding on schedule and in ~~compliance~~ accordance with the agreed policy agenda. ~~Supplemental financing.~~ A supplemental DPF is approved only when:*

~~(a)~~ the program is being implemented in compliance with the provisions of the Loan Agreement;

~~(a)~~ legal agreement with the borrower ~~Bank~~;

~~(b)~~ the Member Country is unable to obtain sufficient funds from other lenders or guarantors on reasonable terms or in a reasonable time without the supplemental DPF;

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- (c) the time available is too short to process a further free-standing Bank ~~operation~~DPF; and
- (d) the ~~borrower~~Member Country remains committed to the program and the implementing agencies have demonstrated competence in carrying it out.

Debt and Debt Service Reduction

~~32-28.~~ There may be circumstances under which the Bank may be called upon to use its financial resources in support of loan restructuring, equity conversion, or interest rate swaps. ~~Lending relating to debt not previously guaranteed by the Bank.~~ DPF for debt and debt service reduction of ~~such debt~~ helps highly indebted countries reduce commercial debt and debt service to a manageable level, as part of a medium-term financing plan in support of sustainable growth. The focus is on rationalizing the ~~country's~~Member Country's external commercial debt ~~not already guaranteed by the Bank~~, by either converting it to lower-interest instruments or buying it back at a discount. ~~Funds~~ In the case of Bank Loans, funds are disbursed against tendered commercial debt for buy-backs or for purchasing acceptable collateral, to reduce principal and interest payments on new instruments issued in exchange for existing debt. The following cases may be distinguished:

- (a) In ~~countries~~Member Countries where a program of structural reform supported by ~~development policy lending~~DPF is already in place or ~~is agreed to~~will be at the same time as the Bank-supported debt restructuring, the Bank must satisfy itself that the savings resulting from debt reduction will increase resources available for investment, because of the comprehensiveness of the program or specific assurances by the ~~borrower~~Member Country.
- (b) In ~~countries~~Member Countries where the Bank is not currently engaged in ~~development policy lending~~,DPF, in order to ~~lend~~provide a Bank Loan to the ~~country~~Member Country or a Bank Guarantee of the Member Country's debt, for debt restructuring, the Bank needs to show that: (i) the reduction in debt service permitted by the operation is expected to be translated into increased productive domestic investment¹⁸ and thus enhance economic growth and development even in the absence of an accompanying Bank-supported development policy program; and (ii) the ~~borrower's~~Member Country's supportive policy framework is expected to remain in place.
- (c) For debt/equity conversion (direct and indirect) and interest rate swaps, Bank involvement is justified when the Bank ~~lending~~Loan or ~~guarantees assist~~Bank Guarantee assists the ~~borrower~~Member Country to: (i) undertake a specific new investment; (ii) enhance an existing project; or (iii) in special circumstances, pave the way, significantly and materially, for conditions more conducive to investment.

~~13-18.~~ Investment has been defined broadly in the Bank's practice to include spending not only for enlarging the productive basis of a country, but also for making it more productive. Investment includes both physical and human capital, as well as spending which directly substitutes for future investment requirements, such as spending on improved operations and maintenance.



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Documentation and Disclosure

Program Document

33-29. For each development policy operation proposed for Bank financing, the Bank prepares a Program Document that describes the operation and the Bank's appraisal of it.¹⁹ A Fund Relations Note with the IMF's views on the country's macroeconomic policy framework is normally attached as an annex to the Program Document. The Program Document is available to the public after the ~~operation~~DPF has been approved by Executive Directors, unless the ~~borrower~~Member Country consents to disclosure before the Executive Directors' consideration of the operation.²⁰

Letter of Development Policy

34-30. The ~~borrower~~Member Country sets out the program of objectives, policies, and measures to be supported by the ~~development policy operation~~DPF—typically a subset of the government's overall strategy—in a Letter of Development Policy (LDP), which is included in the ~~loan~~ documentation presented ~~to the Board~~for approval.²¹ The LDP is available to the public after the ~~Executive Directors approve~~Bank approves the operation, unless the ~~borrower~~Member Country consents to disclose the Program Document, to which the LDP is attached, before ~~Board consideration~~approval.²²

Tranche Release Documents

35-31. ~~In~~For each tranche of a multiple-tranche ~~development policy operation~~, for each ~~tranche~~Bank Loan after the first one, the Bank prepares a Tranche Release Document that reports on the status of the program being supported under the operation. ~~The Tranche Release Document is available to the public (a) after~~ If the Bank Management has ~~Loan was approved by the Executive Directors: (a) they are notified of the~~ release of the tranche; and ~~the Board has been informed, or (b) if a they approve any~~ waiver of a tranche ~~release conditions is recommended, after Executive Directors have approved the condition. The Tranche Release Document is available to the public after such notification or~~ waiver.

44-19. For a supplemental ~~financing~~DPF, a concise ~~program document~~Program Document, known as the Supplemental ~~Financing~~DPF Document (SFD), ("SDPFD"), is prepared. It is disclosed in the same fashion as the Program Document.

45-20. Program Documents may be disclosed before Board discussion if the ~~borrower~~Member Country concerned consents to such early disclosure, according to the [World Bank Policy on Access to Information](#), July 1, 2010, paragraph 23 (b), (ii).

46-21. When the ~~country~~Member Country has prepared its own strategy document describing its development and reform program (~~such as the PRSP~~),² that strategy document—depending on its coverage and specificity—may serve as the primary vehicle for setting out the substance of the country's program. The LDP can then become a short letter reflecting specific parts of the country's own strategy supported by the ~~operation~~DPF.

47-22. See [The World Bank Policy on Access to Information](#), July 1, 2010, paragraph 20 (c).

**Revised April 2013***Crisis and Post-Conflict Situations*

36.32. Countries affected by crisis²³ or conflict²⁴ may require an unusually quick response from the Bank. There may not be sufficient time or country capacity to adequately address design considerations (such as possible distributional effects, effects on natural resources and the environment, fiduciary arrangements), or to develop a strong policy program with stakeholder consultation.

37.33. In such situations, development policy lending DPF is justified on an exceptional basis. In seeking Board approval of such operations, the Bank staff described describes in the Program Document when and how such design considerations would be addressed.

Managing Development Policy Lending Financing*Signing*

38.34. Signing of legal agreements for development policy lending DPF takes places place: (a) after all required authorizations have been issued; and (b) provided there are: (i) no payments on IBRD loans or IDA credits to the borrower of the Bank Loan, or to or guaranteed by the member country Member Country, that are overdue by 30 days or more; and (ii) no payments under a Member Country Indemnity that are overdue by 30 days or more; unless, in exceptional circumstances, Management approves the signing and reports such information to Executive Directors.

Bank Loan Closing Date

39.35. The closing date of a Bank Loan (“Loan Closing Date”) is the date after which the Bank may stop accepting withdrawal applications under the development policy loan Bank Loan and cancel any undisbursed balance in the loan account. The closing date Loan Closing Date is not extended: (a) for a loan if the Bank Loan is subject to suspension of disbursements, except for items (if relevant) exempted from suspension, or (b) for if the Member Country has any loan to a borrower with any outstanding audit reports (if required) or with audit reports (if required) which that are outstanding or are not satisfactory to the Bank, unless the borrower Member Country and the Bank have agreed on actions to address the deficiencies. In exceptional circumstances, retroactive extensions of a closing date Loan Closing Date may be approved by Management.

Bank Guarantee Closing Date; Bank Guarantee Expiration Date

48.23. Member Countries affected by crisis referred to in this OP are those facing either an urgent financial crisis (actual or potential) with substantial structural and social dimensions, or actual or potential serious economic dislocation caused by shocks. These might include Member Countries eligible for special development policy lending DPF under paragraphs 24-26 of this policy statement.

49.24. Countries affected by conflict referred to in this OP are those that need development policy lending DPF for urgent rehabilitation, and whose medium-term structural reform agenda is still emerging. (For countries affected by conflict, staff may refer to OP 2.30, Development Cooperation and Conflict.)

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36. The closing date for a Bank Guarantee (“Bank Guarantee Closing Date”) is the date after which the Bank stops monitoring the program. The expiration date of a Bank Guarantee (“Bank Guarantee Expiration Date”) is the date after which the Bank stops accepting calls on the Bank Guarantee.

Recourse and Remedies

If the ~~borrower~~Member Country does not comply with its contractual obligations to the Bank, or other events occur which give rise to a legal remedy under the legal ~~agreement~~agreements for the ~~development policy loan~~DPF, the Bank consults with the ~~borrower~~Member Country, and requires ~~the borrower~~it to take timely and appropriate corrective measures. The Bank’s legal remedies are specified in the relevant legal agreements ~~and~~with the Bank. In the case of a Bank Loan, these remedies may include suspension of disbursements of, and cancellation of, unwithdrawn amounts of the ~~loan~~Bank Loan. In the case of a Bank Guarantee, these remedies may, depending on the transaction, include the right to suspend or terminate the Bank Guarantee. The Bank exercises such remedies when warranted and as it deems appropriate, taking into account, among other things, ~~country-, sector-~~ and program—specific circumstances, the extent of possible harm caused by circumstances giving rise to the remedy, and the ~~borrower’s~~Member Country’s commitment and actions to address the identified problems. However, the Bank takes a graduated approach to suspension of Bank Loans for non-payment, and when a payment to the Bank under an IBRD loan ~~or, an IDA credit payment from the borrower to the Bank or a Member Country Indemnity,~~ is overdue by 60 days, the Bank suspends all ~~loans~~Bank Loans to or guaranteed by the ~~country~~Member Country concerned.



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Note: ~~OP/This BP and OP 8.60, Development Policy Lending, which together replace OP/BP 8.60, Development Policy Lending Financing, were revised/updated on April 2013, 2011, to take into account/reflect the recommendations in "Investment Lending Reform: Modernizing and Consolidating Operational Policies and Procedures (R2012-0204) [Title of Board paper proposing guarantees mainstreaming (R---- (IDA/R2012-0248);R)], which were approved by the Executive Directors on October 25, 2012, 2011. As a result of these recommendations, the following OP/BPs OP and BP 14.25, Guarantees, have been retired and their content reflected in this OP/BP: OP/BP 12.00, Disbursement; OP/BP 13.00, Signing of Legal Documents, as well as OP and Effectiveness of Loans BP 10, OP and Credits; OP/BP 13.30, Closing Dates; OP/BP 13.40, Suspension of Disbursements; BP 3.10, and OP/BP 13.50, Cancellations (and related Operational Memoranda); 7.00.~~

Development ~~Policy Lending~~ policy operations are governed by this OP/BP, and the following OPs and BPs (including any relevant Operational Memoranda and Instructions [internal use only]), as applicable: [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 4.07, Water Resource Management](#); [OP/BP 4.20, Gender and Development](#); [OP 4.76, Tobacco](#); [OP 7.00, Lending Operations: Choice of Borrower and Bank Loans and Guarantees](#) 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 7.60, Projects in Disputed Areas](#); [OP/BP 8.45, Grants](#); [OP/BP 10.20, Global Environmental Facility Operations](#); [OP/BP 11.00, Procurement](#); [OP/BP 13.16, Country Portfolio Performance Reviews](#); [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](#); and [BP 17.55, Inspection Panel](#).

Questions on development policy [lending/financing](#) may be addressed to the [OPCS Help Desk](#).

Development Policy [Lending/Financing](#)

Identification [and Preparation](#) through Appraisal

1. [Identification](#). At an early stage of preparation of a development policy operation, the ~~task team~~ [Bank](#)¹ consults with the IMF ~~and with relevant units in the Bank,~~ IFC, and MIGA. As appropriate, to establish a coordinated approach to the development policy program, the ~~task team~~ [Bank](#) in coordination with the ~~borrower~~ [Member Country](#) solicits the views of the concerned regional development bank and other external donors on policy objectives.

2. [Concept Documentation](#). After the program concept is ~~clearly defined, but before detailed preparation of the operation begins, the task team~~ [Bank](#) prepares a ~~Concept~~ [concept Program Document \("PD"\)](#)² explaining the rationale for the proposed [development policy](#) operation, linking it with the ~~most recent~~ [Country Assistance Strategy](#), and describing its objectives, expected ~~outcomes~~ [results](#), and provisions. [For a Bank Guarantee, it also includes an indicative term sheet.](#)

1. The terms used in this BP have the meanings set forth in OP 8.60. If the DPF is to, or guarantees the debt of, a Political Subdivision, the requirements applicable to the Member Country also apply to its Political Subdivision, as relevant.

2. ~~Examples of the Concept Document and other~~ [A template for development policy lending documents](#) ~~are~~ [operations Program Documents](#) is available ~~at~~ [the World Bank OPCS website](#).

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The ~~task team~~Bank also prepares an initial ~~Program Information Document (program information document (“PID”))~~ summarizing the main elements of the evolving operation. ~~The~~

- ~~1.—~~*Concept Decision.* ~~The concept Program Document and PID are reviewed and cleared according to~~discussed at a Bank-wide concept decision meeting. The Bank decides at the ~~concept decision meeting:~~ (a) ~~whether to proceed with the corresponding development policy lending processing steps and the task team sends the PID to the InfoShop. As preparation of the preparation of development policy operation proceeds;~~ and (b) ~~on the future preparatory work required. For a DPF in the form of a Bank Guarantee, the Bank also decides on the key features of the task team keeps the PID updated guarantee structure, and sends each revision whether to proceed to initiate negotiations with the InfoShop.~~

Member Country and potential lenders to further develop such key features.³ For proposed special ~~development lending, DPF,~~⁴ the Region consults informally with the Board at an early stage of preparation, and thereafter as necessary.

2.— Appraisal and Review

- ~~3. Program Document.~~ As ~~policy discussions evolve, the operation is prepared, Bank continues the task team drafts preparation of~~ the Program Document (“PD”), which includes the policy and ~~results~~ matrix.⁵ The PD clearly sets out the objectives of the proposed operation in terms of the specific ~~outcomes~~results expected from the ~~resource transfer and the government~~ program being supported. ~~It includes a~~The results ~~framework with~~have measurable indicators (with quantitative baselines and targets, whenever possible) for monitoring progress during implementation and evaluating ~~outcomes~~results on completion. In addition, ~~the PD~~ covers the considerations, design provisions, and fiduciary arrangements discussed in OP 8.60. ~~Finally, it includes the proposed terms of the DPF.~~

- ~~4.—~~ Before appraisal, the Region submits the proposed operation for corporate review by the Regional Operations Committee (usually chaired by the Regional vice president) or the Operations Committee (usually chaired by a Managing Director). On conclusion of the review, the Chair of the Regional Operations Committee or Operations Committee specifies further actions, and, as appropriate, ~~authorizes appraisal and negotiations.~~

^{3.} ~~Negotiations of a Bank Guarantee are normally an ongoing process, rather than a discrete step, and may be concluded following approval by the Executive Directors.~~

^{4.} ~~See OP 8.60, Development Policy Financing, paras 24-26.~~

^{5.} ~~A template of the policies and results matrix can be found as part of the PD template in the OPCS website.~~



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4. Decision. Decision meetings for DPFs are at the corporate level.⁶ The decision meeting assesses the adequacy of the proposed program of prior actions to achieve its stated results and objectives. On conclusion of the meeting, the Bank decides: (a) whether to authorize appraisal and negotiations of a DPF in the form of a Loan; or (b) whether to authorize appraisal and continuation of negotiations of a DPF in the form of a Bank Guarantee. It also specifies further actions required.
5. Appraisal. During appraisal, the ~~task team~~ Bank reviews the ~~team includes in~~ status of the prior actions and documentation supporting their execution. After appraisal, the Bank updates program documentation, including the borrower's draft Letter of Development Policy (LDP), and the lawyer prepares the draft Loan Agreement. legal agreements for a Bank Loan.

Negotiations and Board Presentation through Effectiveness

~~6. Invitation to Negotiate.~~ The country director issues the invitation to negotiate a development policy operation. The invitation includes a statement that it is the Bank's policy to make the PD available to the public after the loan or credit has been approved unless the borrower has consented in writing to disclosure before Board consideration. It also indicates that the LDP will be made available to the public normally together with the operation's PD, and that any Tranche Release Document (TRD) will also be made publicly available. It requests that the borrower's negotiating team be prepared to identify, during negotiations, any sections of the PD that are confidential or sensitive, or that may adversely affect relations between the prospective borrower and the Bank, if disclosed.

~~6. Finalizing the PD.~~ When finalizing the PD, the team leader makes appropriate adjustments to it to deal with any matters raised by the borrower. Negotiations of Bank Loans. Management authorizes negotiations of a Bank Loan based on the relevant documentation. The Bank and the Member Country then conduct the negotiations and seek to finalize agreement on the relevant issues and documentation. If new substantive issues or significant changes in the design of the Bank Loan are raised during the negotiations, based on a consideration of these issues, Management decides whether to proceed.

~~7. Submission to Executive Directors.~~ After negotiations, the Bank finalizes the PD. If any information ~~that~~ raises issues of confidentiality or sensitivity, or may adversely affect relations between the Bank and the borrower, ~~is removed from the PD but is~~ Member Country, and is deemed relevant to the Executive Directors in their decision-making process, ~~the team leader incorporates~~ such information is not included in the PD, and is described in the Memorandum of the President (MOP-) instead. The LDP and the Fund Relations Note are normally attached as annexes to the PD. ~~Whenever the Fund Relations Note is represented by an IMF Assessment Letter it should be treated~~

^{6.} Corporate level is carried out at the Regional Operations Committee or Operations Committee. See DPF Instructions.



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as confidential and attached to the MOP that accompanies the PD, unless the IMF has informed the Bank that the country authorities have consented to its disclosure.

~~8.7. *Distribution of the PD to Executive Directors.* After the PD has been cleared for distribution to Executive Directors following the corporate review process, the Regional vice president transmits the PD to the Corporate Secretariat's Policy and Operations Unit (SECPO), indicating in the Board Submission Form that the PD will be made publicly available after the loan or credit. When there are: (a) payments under any IBRD loan or IDA credit to or guaranteed by the Member Country that are overdue by 30 days; or (b) payments due by the Member Country under any Member Country Indemnity that are overdue by 30 days; the PD is not submitted to the Executive Directors unless exception is approved, unless the borrower has consented to the disclosure of the PD before Board consideration, granted by Management.~~

~~9. *Board Bank Loan Approval.* The Board approves the loan on the basis of the Program Document (which sets out the program content, conditionality, and terms) and the government's LDP. For special development policy operations, the Region may propose fast track consideration. For Bank Loans requiring approval by the Executive Directors (that is, consideration within not less than one calendar week following distribution of the documents).~~

~~10. *Disclosure.* The process for disclosing the Program Document varies depending on whether the borrower has consented to its early disclosure.~~

~~11. (a) If the borrower has consented to the disclosure of the PD before Board consideration, the country director transmits the PD to SECPO indicating in the Board Submission Form that the PD is to be disclosed upon its distribution to the Board, and that the government has granted its written consent to such early disclosure. SECPO distributes the PDs to the EDs and notifies the Internal Documents Unit (IDU) that the PD should be made available to the public. If the PD is subsequently revised to reflect the Board discussion, the country director transmits the revised final PD to SECPO indicating in the Board Submission Form that the PD may be made available to the public. SECPO distributes the final version of the paper to the EDs and informs IDU that it should now be disclosed.~~

~~12.8. (b) If the borrower has not consented to the early disclosure of the PD, disclosure takes place only after, after all requirements for Board approval have been met, the Executive Directors have approved the operation. If after the Board discussion the PD does not need to be revised, SECPO notifies IDU and the InfoShop that the document may be made available to the public. If further revisions to the PD are required, SECPO notifies IDU and the InfoShop about the need for revisions. Once the document has been revised and cleared according to the corresponding development policy lending processing steps, the country director transmits the revised final document to SECPO, indicating in the Board Submission Form that the PD may be made available~~



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to the public. SECPO notifies IDU and the InfoShop that the PD may be made available to the public. decide whether to approve the proposed DPF.

9. Bank Guarantee Approval. Management may seek approval by the Executive Directors of a Bank Guarantee before negotiations have been completed. The PD will include the structure of the Bank Guarantee, the proposed risk coverage, and indicative terms and conditions of the Bank Guarantee. The terms and conditions of the underlying guaranteed financing and the Bank Guarantee may be finalized after approval. If the completion of negotiations results in substantial changes to the Bank Guarantee previously approved by the Executive Directors, Management resubmits the proposal to them for approval of the changes.

10. Management approval. Management decides whether to approve any DPF that does not require approval by the Executive Directors.

11. Signing. After approval of the development policy loan DPF, the Bank arranges for signing of the relevant legal documents as soon as the relevant signing requirements are met. The legal agreements for a Bank Guarantee are signed after approval of the Bank Guarantee and completion of negotiations. If the legal documents for a Bank Loan are not signed within 186 months following approval, the Bank normally withdraws the offer of the loan DPF. If the legal documents for a Bank Guarantee are not signed within 12 months following approval, the Bank normally withdraws the offer of the Bank Guarantee. Exceptionally, Management may decide to provide the borrower with grant additional time for signing to sign take place.

12. Effectiveness. The legal agreements for a Bank Loan terminate if the conditions for their effectiveness, if any, are not met by the date specified in the agreements. When warranted, Management may decide to extend the effectiveness deadline; normally the deadline is not extended beyond 1812 months after loan Bank Loan approval. When the effectiveness deadline is extended, dated covenants, if any, whose dates fall before the new effectiveness deadline become additional conditions of effectiveness. Any decision by Management to declare the legal agreements effective or to extend the effectiveness deadline is taken before the expiration of the effectiveness deadline. Exceptionally, if the legal agreements have terminated for failure to become effective by the effectiveness deadline, Management may decide to reinstate such agreements with the borrower's agreement Member Country's agreement. Legal agreements for Bank Guarantees become effective in accordance with their terms.

15.-

13. Informing the Executive Directors. For loans operations approved by the Executive Directors, Management informs the Executive Directors, as part of regular operational reporting, of the following: (a) signing delays of more than six months following approval of a Bank Loan and of more than 12 months following approval of a Bank Guarantee; (b) withdrawals of the loan DPF



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offer; (c) effectiveness deadlines; (d) effectiveness delays of more than nine months after approval by the Executive Directors following approval of a Bank Loan; and of more than 12 months following approval of a Bank Guarantee; (e) legal agreements that terminate for failure to become effective; and (f) terminated legal agreements that have been reinstated.

~~17.14.~~ *Extensions Following Changes in Conditions Prior to Signing or Effectiveness.* If an extension of the deadline for signing or effectiveness involves a substantial departure from the conditions under which the ~~loan~~DPF was originally approved, the legal agreements are not signed or declared effective until Bank approval of the new conditions is obtained.

~~Development Policy Operations with~~ Deferred Drawdown Option

~~18.15.~~ *Deferral Period.* Throughout the ~~deferment~~deferral period of a ~~DPL~~Bank Loan with DDO or a-Cat DDO option, the Bank maintains a close policy dialogue with the ~~borrower~~Member Country. As part of regular ~~loan~~supervision and at least every 12 months, the Bank reviews the ~~borrower's~~Member Country's continuing adherence to the overall program laid out in the LDP and, for a ~~DPL~~DDO, the adequacy of the ~~borrower's~~Member Country's macroeconomic policy framework. If at any time during the ~~deferment~~deferral period, the Bank concludes that the ~~borrower~~Member Country no longer complies with the LDP program (or, for the ~~DPL~~DDO, no longer has an adequate macroeconomic policy framework), the Bank promptly notifies the ~~borrower~~Member Country, including the reasons for its determination; advises that if the ~~borrower~~Member Country requests a drawdown it will be subject to a full review of program implementation (and, for the ~~DPL~~DDO, of the macroeconomic policy framework); works with the ~~borrower~~Member Country to help it meet the relevant conditions; and notifies the ~~borrower~~Member Country when those conditions are again met.

~~19.16.~~ *Drawdown and Renewal.* On the ~~borrower's~~Member Country's request to draw on the ~~loan~~Bank Loan, the Bank responds rapidly with the disbursement (for the Cat DDO, after confirming that the natural disaster ~~trigger~~condition has been met). However, if the Bank has previously advised the ~~borrower~~Member Country that it does not meet relevant conditions for the drawdown (set out in OP 8.60, para. 22) and the ~~borrower~~Member Country has not yet returned to compliance with those conditions, the Bank conducts a full review of the overall program implementation (and, for the ~~DPL~~DDO, of the macroeconomic policy framework) as early as possible on receipt of the ~~borrower's~~Member Country's drawdown request. Once the Bank confirms that the ~~borrower~~Member Country has met the relevant drawdown conditions, the Bank proceeds with disbursement. ~~DPL~~ DDOs and Cat DDOs can be renewed with approval of the RVP provided that the overall program continues to be implemented in a manner satisfactory to the Bank and macroeconomic policies are adequate.

Disbursement, Supervision, Monitoring, and Evaluation



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~~20-17.~~ Bank Loan Disbursement; Tranche Release-Tranches. After the legal agreements have been declared effective, the Bank disburses the proceeds of the ~~loan~~Bank Loan in accordance with the terms and conditions of the legal agreement, including tranche release conditions. These conditions include Bank satisfaction with: (a) the program being carried out by the ~~borrower~~Member Country; and (b) the adequacy of the ~~borrower's~~Member Country's macroeconomic policy framework; ~~each~~Each subsequent tranche of a multiple tranche operation is normally also conditioned on compliance with key actions included in the reform program supported by the ~~loan~~Bank Loan.

~~21-18.~~ Tranche Release Document. During the preparation of a Tranche Release Document (“TRD”), the ~~team leader~~Bank consults with the ~~borrower~~Member Country to identify any sections of the TRD that are confidential or sensitive, or that could adversely affect relations between the ~~borrower~~Member Country and the Bank if disclosed. As appropriate, the ~~team leader~~Bank makes adjustments to the TRD to deal with any matters raised by the ~~borrower~~Member Country.

~~22-19.~~ Tranche Release. When the ~~borrower~~Member Country has, in all material respects, satisfactorily met the conditions for tranche release specified in the ~~Loan Agreement, the Regional vice president~~legal agreement, Management approves the tranche release and ~~sends, for a Bank Loan approved by the Executive Directors, informs the announcement to SECPO, indicating in the Board Submission Form that the TRD will be made publicly available~~Executive Directors accordingly. The MOP that accompanies the TRD may incorporate any information raising issues of confidentiality, sensitivity, or adverse relations between the ~~borrower~~Member Country and the Bank that ~~the Regional vice president~~Management wishes to convey to Executive Directors. ~~SECPO distributes the TRD to Executive Directors for information and notifies IDU and the InfoShop that the TRD may be made available to the public.~~

~~23.~~ Board approval is required for a waiver or amendment of loan agreement requirements. If the borrower has not met the tranche release conditions and the Region proposes to waive or amend the Loan Agreement requirements, the Regional vice president consults with the Managing Director concerned before recommending approval of the tranche release and sending the announcement to SECPO for issuance to Executive Directors for approval.

~~20.~~ If the Waivers of Tranche Release. A waiver of the tranche release conditions for a Bank Loan approved by the Executive Directors, requires approval by the Executive Directors.

~~24-21.~~ Refunds of Excluded Expenditures. If the Bank at any time determines that any amount withdrawn under the ~~development policy loan~~Bank Loan has been used for expenditures excluded under the legal agreement, the Bank requires the ~~borrower~~Member Country to refund the amount to the Bank. The amount so refunded is credited to the loan account and cancelled.

~~25-22.~~ Supervision, Monitoring & Evaluation. Supervision of a development policy operation covers monitoring, evaluative review, reporting, and technical assistance activities as needed to:



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- (a) ascertain whether the ~~borrower~~Member Country is carrying out the program with due diligence to achieve its development objectives in conformity with the legal agreements;
- (b) identify problems promptly as they arise during implementation and recommend to the ~~borrower~~Member Country ways to resolve them;
- (c) recommend changes in program concept or design in programmatic series, as appropriate, and as the program evolves or circumstances change;
- (d) identify the key risks to program sustainability and recommend appropriate risk management strategies and actions to the ~~borrower~~Member Country; and
- (e) prepare the Bank's ~~Implementation Completion~~implementation completion and ~~Results Report (results report ("ICR;"))~~ and draw lessons to improve the design of future operations, sector and country strategies, and policies.

~~26-23.~~ In supervising a development policy operation, the ~~task team~~Bank monitors the ~~country's~~Member Country's overall economic performance and the timely adoption and effective implementation of the ~~agreed~~ program conditions. For multiple-tranche operations, the ~~task team~~Bank assesses the ~~borrower's~~Member Country's progress toward meeting the conditions for release of the next tranche. For programmatic operations, the ~~task team~~Bank assesses the ~~borrower's~~Member Country's progress in implementing the expected actions for the subsequent operation in the series. The ~~task team~~Bank also validates the ~~borrower's~~Member Country's monitoring and evaluation findings on the progress and results of program implementation. The task team consults and coordinates with the IMF and any co-financiers in carrying out its supervision work.

~~27-24.~~ *Changes to Programmatic Series.* For a programmatic series of development policy operations, if priorities or circumstances surrounding the program change during program implementation, it may be desirable to introduce corresponding changes in program objectives and/or design, to be reflected in subsequent operations in the series. On receipt of a written request from the ~~borrower~~Member Country for the change, the ~~country director, in consultation with the team leader and the lawyer,~~Bank determines whether the change is significant or minor. Significant changes—for example, revisions to ~~to~~the number of operations in a series or in the number or substantive content of triggers for subsequent operations—~~must be vetted by the Regional Operations Committee (ROC) or the Operations Committee (OC), as appropriate. Minor changes are submitted to the country director for approval.~~are vetted at the corporate level.

~~25.~~ *Monitoring Bank Guarantees after the Guarantee Closing Date.* In the case of a DPF in the form of a Bank Guarantee, following the Guarantee Closing Date (which is commonly 12 months after the effectiveness date) and the preparation of the ICR, monitoring continues at the corporate



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level until the Bank Guarantee Expiration Date, focusing on the specific risks covered under the Bank Guarantee.

Supplemental Financing

~~28.26.~~ Before considering supplemental ~~financing~~, DPF, the Bank ~~staff work~~ explores with the ~~borrower to explore~~ Member Country other solutions, including identifying alternative sources of funds. Staff develop a concise ~~program document~~ Program Document, known as the Supplemental Financing Document (“SFD”), that explains why supplemental financing is needed and what measures have already been taken to deal with the situation. The SFD sketches the recent developments relevant to the program and shows that the criteria for ~~the~~ supplemental Bank ~~financing~~ DPF have been met. It also describes any changes required in the loan documents. Supplemental financing is provided as a separate ~~loan and constitutes a new loan commitment. The financial terms and conditions for the supplemental loan are set in accordance with the provisions of OP 3.10, Financial Terms and Conditions of IBRD Loans, IBRD Hedging Products, and IDA Credits. The legal documentation for a supplemental loan usually consists of an amendment to the Loan Agreement. The supplemental loan is normally considered at a Board meeting under standard procedures. However, Board approval may be sought under streamlined procedures when (a) the supplemental financing raises no complex or controversial issues; (b) the proposed loan is small relative to the original operation; (c) the loan does not involve a major change in the Bank’s share of financing; and (d) no substantial changes are proposed in the program objectives or design. The SFD is disclosed following the same procedures as for the PD (para. 11).~~ Bank Loan or Bank Guarantee and constitutes a new commitment. If the DPF was originally approved by the Executive Directors, the supplemental DPF is approved by the Executive Directors.

Cancellation; Closing Date; Recourse and Remedies

27. Suspension, Cancellation and Termination of a DPF. Suspension, cancellation and/or termination of a DPF are effected in accordance with the relevant provisions of the legal agreements, and, in the case of Bank Loans, in accordance with the following provisions:

~~29.28.~~ Loan Cancellation. The ~~borrower~~ Member Country or the Bank may decide to cancel an unwithdrawn amount of the ~~loan~~ Bank Loan in accordance with the provisions of the legal agreements. When the ~~borrower~~ Member Country decides to cancel an amount of the ~~loan~~ Bank Loan and gives notice to the Bank, the cancellation is effective as of the date of receipt of the ~~request~~ notice. The Bank does not accept requests for retroactive cancellations.

~~30.29.~~ If the Bank cancels an amount of the ~~loan~~ Bank Loan, the cancellation is effective as of the date of the notice, except in the case of cancellation of the remaining unwithdrawn balance of the ~~loan~~ Bank Loan after the ~~closing date~~ Closing Date, in which case the cancellation is effective on the



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latest of: (a) the ~~closing date~~Loan Closing Date; (b) the final date for receipt of withdrawal applications by the Bank; or (c) the final date the loan account was charged for a disbursement or credited for a refund.

~~31.30.~~ *Loan Closing Date.* -During implementation of the operation, the Bank monitors the approach of the ~~closing date~~Loan Closing Date and works with the ~~borrower~~Member Country to ensure that closing procedures as set out below are followed. Upon a request from the ~~borrower~~Member Country, the Bank may decide to extend the ~~closing date~~Loan Closing Date if the ~~loan~~Bank Loan has an undisbursed amount and the program remains on track as approved.

~~32.31.~~ *Closing the Development Policy Bank Loan Account.* The Bank closes the loan 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~~Loan Closing Date. Any undisbursed balance of the ~~loan~~Bank Loan is cancelled. The Bank notifies the ~~borrower~~Member Country of the final disbursement status of the ~~loan~~Bank Loan account and the cancellation of any undisbursed balance.

~~33.32.~~ *Development Policy Lending under Suspension of Suspended Bank Loan Disbursements.* If a suspension of disbursements is in effect on the ~~closing date~~Loan Closing Date, any unwithdrawn ~~loan~~Bank Loan balance is normally canceled and the ~~loan~~Bank Loan account is closed. Exceptionally, Management may decide to authorize a delay in canceling the balance and closing the ~~loan~~Bank Loan account if suspension is likely to be lifted imminently and program 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~~Loan Closing Date.

Evaluation

The ~~task team~~Bank prepares an ICR on completion of an operation, normally due 12 months after the Closing Date.⁷ The ICR assesses: (a) the degree to which the program achieved its development objectives and ~~outputs~~results as set out in the ~~program documents~~Program Document; (b) other significant outcomes and impacts; (c) prospects for the program's sustainability; and (d) Bank and ~~borrower~~Member Country performance, including compliance with relevant Bank policies. It draws on the data and analysis to substantiate these assessments, and it identifies the lessons learned from implementation. For programmatic ~~development policy lending, an ICRDPF, a single ICR for the series~~ is prepared on completion of the program ~~and includes a separate assessment, typically due 6 months after the Closing Date~~ of the ~~contribution of each individual~~last operation in the series.

⁷ "Closing Date" refers, collectively, or as the context requires, singularly, to a Loan Closing Date and/or a Bank Guarantee Closing Date.



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Management may decide to ~~the program~~ authorize an extension of time for the completion of the ICR and its submission to Executive Directors.

ANNEX 3:

DRAFT PROPOSED EXCERPT ON IBRD ENCLAVE OPERATIONS AND IBRD AND IDA GUARANTEES TO BE INCLUDED IN OP 3.10

IBRD Enclave Operations

1. **Enclave IPF.** IBRD extends Investment Project Financing (IPF)¹ in the form of loans and guarantees for projects in IDA-only countries, subject to credit enhancement features that adequately mitigate IBRD's credit risk ("Enclave IPF").²
2. **Requirements.** IBRD provides Enclave IPF: (a) for projects that are expected to generate large economic benefits with significant developmental impact in the member country; and (b) for projects that cannot be fully financed out of the country's own resources, IDA resources, and other concessional financing resources. IBRD provides Enclave IPF only for an IDA-only country which will have the resources necessary to meet its repayment obligations to IBRD, including sufficient foreign exchange to cover the country's foreign exchange related payment obligations to IBRD under the Enclave IPF. Consequently, Enclave IPF may be provided in the following circumstances: (a) in an IDA-only country at low or moderate risk of debt distress, for a project that does not itself generate foreign exchange, but has clear economic and financial benefits with strong financial flows in local currency and the IDA-only country has sufficient alternative non project related foreign exchange to cover the country's obligations to IBRD under the Enclave IPF; or (b) in any IDA-only country, for a foreign-exchange-earning project that generates sufficient foreign exchange to cover the country's obligations to IBRD under the Enclave IPF.
3. **Pricing.** Pricing of Enclave IPF is generally consistent with the pricing of IBRD IPF. In certain cases, pricing of Enclave IPF may be higher than IBRD IPF pricing as Enclave IPF is provided for IDA-only countries, which have a higher credit risk. In such cases, increase in pricing takes into account the credit enhancement framework under which such IPF is being provided, including the availability of credit risk mitigation features such as subrogation rights, fee reserves and non-accelerability, that are intended to reduce the exposure to IBRD.

IBRD and IDA Guarantees

4. IBRD and IDA (collectively and individually, the Bank) offer project-based guarantees as Investment Project Financing (IPF)³ and policy-based guarantees as Development Policy Financing (DPF).⁴ IDA guarantees are generally offered to IDA-only countries. However, IDA may also offer guarantees for IDA/IBRD blend countries where IBRD resources are not available.

¹ See OP 10.00, *Investment Project Financing*.

² See also OP 7.00, *Bank Loans and Bank Guarantees: Contractual Arrangements*, OP 7.20, *Security Arrangements*. IBRD guarantees to IDA/IBRD blend countries are reflected on the IBRD balance sheet except in the case of "blend countries" where IBRD resources are not available, in which case, IDA guarantees may be available to these countries.

³ See OP 10.00, *Investment Project Financing*.

⁴ See OP 8.60, *Development Policy Financing*.

Project-Based Guarantees

5. ***General.*** Project-based Bank guarantees support projects with defined development objectives, activities, and results in accordance with OP 10.00. A project-based Bank guarantee may be structured so as to combine different types of guarantees, as appropriate for the project supported. In providing guarantee coverage, the Bank assesses the appropriateness of the government undertakings, taking into account country, market and project circumstances. All project-based Bank guarantees require an adequate dispute resolution framework so as to avoid entangling the Bank in the substance of any dispute between the parties, including any dispute between two governments. The Bank guarantees do not support bilateral debt or debt extended by publicly owned entities that operate under public law for public policy purposes.⁵ Bank guaranteed debt itself, is ineligible for any kind of debt restructuring without the consent of the Bank. The Bank does not provide guarantees for sovereign international borrowings for public sector projects in countries undergoing external debt restructuring until the country completes a debt restructuring agreement with commercial lenders and has in place a macroeconomic framework acceptable to Bank.

6. ***Types.*** Project-based Bank guarantees may be of the following types:

- (a) ***Loan guarantees.*** These guarantees cover loan-related debt service default caused by government⁶ failure to meet specific payment and/or performance obligations arising from contract, law or regulation, in relation to a project. Loan guarantees include coverage for debt service defaults on: (i) commercial debt,⁷ normally for a private sector project; and (ii) a specified portion of commercial debt irrespective of the cause of such default, normally for a public sector project.
- (b) ***Payment guarantees.*** These guarantees cover defaults on non-loan related government payment obligations, to private entities and foreign public entities arising from contract, law or regulation.

7. ***Special Requirements for IDA loan guarantees in support of commercial debt owed by governments for public sector projects.*** Commercial debt owed by governments and guaranteed by IDA in support of public sector projects must comply with Bank policies relating to non-concessional borrowing. IDA makes available such loan guarantees in IDA countries at low or moderate risk of debt distress. IDA may also consider providing such loan guarantees in other IDA countries, provided that: (i) the project is expected to generate revenues that are strong and sufficiently robust to withstand economy-wide shocks; and (ii)

⁵ For example, bilateral financiers, government owned-policy banks and export/import agencies.

⁶ The term “government”, when used in this Section (IBRD and IDA Guarantees) of this OP, has the meaning ascribed to both the terms “Member Country” and “Political Sub-division” in OP 8.60, *Development Policy Financing*; or to the term “government” in OP 10.00, *Investment Project Financing*, as the case may be.

⁷ Commercial debt means, debt provided by a lender that is wholly or predominantly privately owned, or a lender that is publicly owned but is an autonomous entity established and operating under commercial law for the purposes of pursuing profit (such as a state owned commercial bank).

expected project revenues are anticipated to be at all times sufficient for debt service and if necessary, arrangements for setting aside revenues for that purpose are adequate.

8. ***Special Requirements for payment guarantees.*** Payment guarantees may not be offered if the payment obligations are owed to a member country that is under payment arrears to the Bank.

9. ***Trust Funded Guarantees.*** Guarantees backed by trust fund resources are subject to Bank policies and procedures applicable to Bank guarantees, except that, on a case-by-case basis and to the extent expressly permitted by a trust fund's constituent documents: (a) the specific financial terms of guarantees backed by trust fund resources, including the fee regime, maturity limits and accelerability provisions, may differ from the terms specified in this OP; and (b) as appropriate for the purpose of assisting member countries to mobilize financing, the financial structure of guarantees may differ from the structure(s) contemplated in this OP. In all cases of (a) and (b) above: (i) the relevant trust fund's donors, through the trust fund's constituent documents, agree that the trust fund bears any associated financial and/or credit risks resulting from deviations to the financial terms and structures contemplated in this OP; and (ii) where a different fee regime is proposed, the principle of full cost recovery for the Bank applies⁸.

Policy-Based Guarantees

10. ***General.*** Policy-based guarantees cover debt service defaults, irrespective of the cause of such default, on a specified portion of commercial debt owed by government and associated with the supported government's program of policy and institutional actions. In providing guarantee coverage, the Bank assesses the appropriateness of the government undertakings, taking into account country, market and program circumstances. Policy-based guarantees do not support bilateral debt or debt extended by publicly owned entities that operate under public law for public policy purposes.⁹

11. ***Special Requirements for IDA policy-based guarantees.*** IDA only provides policy-based guarantees for IDA countries at low or moderate risk of debt distress, provided they comply with Bank policies relating to non-concessional borrowing.

Financial Terms of Bank Guarantees.

12. ***Maturity Limits.*** Guarantee maturity calculations are determined, based on the type and structure of the guarantee and subject to the following overall limitations:

- (a) ***IBRD Guarantees Maturity Limits.*** IBRD's financial exposure under IBRD guarantees is subject to the same average and final maturity limits as those applicable to IBRD Flexible loans. When justified by particular project or program

⁸ The Bank's legal agreements and/or the guarantee structure include appropriate risk mitigation measures; and limit the payment obligation of the Bank in the event of a call on the guarantee to the amount of funds made available to the Bank in the relevant trust fund.

⁹ For example, bilateral financiers, government owned-policy banks and export/import agencies..

needs, the Executive Directors may decide to approve an exception to the average or final maturity limits.

- (b) *IDA Guarantees Maturity Limits.* IDA's financial exposure under IDA guarantees is subject to the maximum allowable final maturity limits as those applicable to IDA credits to the member country.

13. **Pricing.** The pricing of IBRD and IDA guarantees includes several fees, and is determined based on the concept of loan equivalency with IBRD Loans and IDA credits, respectively. These fees are generally paid by the implementing entity in the case of project-based guarantees, and by the government in the case of policy-based guarantees. The currently applicable Bank guarantee fee levels are available at <http://treasury.worldbank.org/>. Once the Bank guarantee fees are fixed, they remain unchanged for the life of the guarantee.

- (a) *IBRD Guarantee Pricing.* IBRD guarantee pricing comprises two components: a guarantee fee and a front-end fee. IBRD guarantee fee levels are determined annually by the Executive Directors.
 - (i) The *guarantee fee* is set at the same level as the contractual spread for IBRD loans¹⁰ and is charged on the disbursed and outstanding amount of the guaranteed financing representing IBRD's financial exposure under the guarantee provided.
 - (ii) The *front-end fee* is a one-time fee set at the same level as the front-end fee on IBRD loans and is charged up-front on the maximum amount of the IBRD guarantee.
- (b) *Pricing of Special IBRD Development Policy Financing.* Special development policy financing in the form of an IBRD policy-based guarantee is offered on an exceptional basis to eligible IBRD member countries that are approaching or are in a crisis with substantial structural and social dimensions, and that have extraordinary and urgent financial needs. The pricing of IBRD special DPF are decided from time to time by the Executive Directors, and are described at <http://treasury.worldbank.org/>.
- (c) *IDA Guarantee Pricing.* The pricing of IDA guarantees comprises two components, a guarantee fee and a stand-by fee. [IDA guarantee fee levels are determined annually by the Executive Directors].
 - (i) The *guarantee fee* is set at the same level as the service charge on IDA credits and is charged on the disbursed and outstanding amount of the guaranteed financing representing IDA's financial exposure under the guarantee provided.
 - (ii) The *stand-by fee* is set at the same level as the commitment charge for IDA credits and is charged on the undisbursed amount of the guaranteed financing.

¹⁰ A maturity premium, as applicable, may be added to the contractual interest spread, as appropriate.

- (d) **Payment of Fees.** IBRD guarantee and front end fees, and IDA guarantee and stand-by fees are payable in advance, either periodically in installments or in a single up-front payment, on a present value basis.¹¹
- (e) **Refund of Guarantee Fee.** If, during the life of a Bank guarantee, the Bank's financial exposure under its guarantee is reduced or canceled, the Bank may, in its discretion, refund to the paying party a portion of any guarantee fees the Bank has received up-front, commensurate with the reduction in exposure.
- (f) **Additional Fees.** To cover the additional cost of preparing IBRD and IDA support for private sector projects, the Bank charges additional *up-front fees*, consisting of initiation fees and processing fees to the project implementing entity. Bank Management determines the amount of these additional fees from time to time. The currently applicable up-front fee levels are available at <http://treasury.worldbank.org/>. The initiation and processing fees are non-refundable.
 - (i) The **initiation fee** is charged to offset the Bank's internal preparation and development costs for private sector projects.
 - (ii) The **processing fee** is charged to reimburse the Bank for direct or indirect costs of external support and other out-of-pocket expenses incurred by the Bank. In some cases, the Bank may negotiate and agree with the private sector a higher fee taking into account the expected preparation costs. In addition, for resource-intensive projects, IBRD and/or IDA may recover higher than usual costs of project preparation. Management determines the level and extent of such higher cost recovery on a case-by-case basis.¹²

14. **Accelerability.** Accelerability on Guarantees is applied as follows:

- (a) Subject to (b) below, IBRD project-based guarantees may be accelerable;
- (b) Enclave IPF guarantees and IBRD-policy-based guarantees may be accelerable only under exceptional circumstances¹³; and,
- (c) IDA guarantees are non-accelerable.

15. If an IBRD guarantee is accelerable, the unpaid balance of the guarantee may be payable by IBRD: (i) if the underlying debt guaranteed by IBRD is accelerated and becomes due and payable; and (ii) upon call of the guarantee during a guarantee callable period. If a Bank guarantee is not accelerable, the Bank's payment obligations to the lenders (including

¹¹ The fee is charged and collected in advance of each fee period, or charged in a single lump-sum amount upfront on a present value basis calculated using the same discount rate with which the Bank's exposure is calculated.

¹² Such additional costs may also be recovered for other forms of support from IBRD and IDA that are explicitly designed to facilitate private sector projects.

¹³ Requiring the approval of the Managing Director in charge of operations.

bond holders) are limited to the principal and interest obligations in accordance with the original schedule of the guaranteed debt.

16. *IDA Country Allocations for Guarantees.* When extending an IDA Guarantee, IDA reduces the country's available allocation by a minimum of 25 percent of the face value of the guarantee.¹⁴

¹⁴ For *IDA guarantees*, Executive Directors in 2004 approved the reduction of the "IDA commitment authority" amount required to back new guarantees to 25 percent of the face value of the guarantee. "IDA Guarantee Amendment to Pilot Program" (IDA/R2004-0057, dated March 2004).

ANNEX 4

PROPOSED ADJUSTMENTS TO THE PROCUREMENT GUIDELINES, THE CONSULTANT GUIDELINES, AND TO THE ANTI-CORRUPTION GUIDELINES APPLICABLE TO BANK GUARANTEES, DUE TO THE INTRODUCTION OF PAYMENT GUARANTEES

Current Language	Proposed Language
<i>Guidelines Procurement of Goods, Works, and Non-Consulting Services under IBRD Loans and IDA Credits & Grants by World Bank Borrowers – draft proposed changes to Paragraph 3.18</i>	
<p>Procurement under Loans Guaranteed by the Bank</p> <p>3.18 If the Bank guarantees the repayment of a loan made by another lender, the goods, works, and non-consulting services financed by said loan shall be procured with due attention to economy and efficiency and in accordance with procedures which meet the requirements of paragraph 1.5. The Bank may conduct a review of the procurement transactions under the Loan upon its closure.</p>	<p>Procurement under Loans <u>and Payment Obligations</u> Guaranteed by the Bank</p> <p>3.18 If the Bank guarantees the repayment of a loan made by another lender, <u>or guarantees the payment of a non-loan related government payment obligation</u>, the goods, works, and non-consulting services financed by said loan <u>or said payment obligation</u> shall be procured with due attention to economy and efficiency and in accordance with procedures which meet the requirements of paragraph 1.5. The Bank may conduct a review of the procurement transactions <u>financed on this basis</u>under the Loan upon its closure.</p>
<i>Guidelines Selection and Employment of Consultants under IBRD Loans and IDA Credits & Grants by World Bank Borrowers – draft proposed changes to Paragraph 3.14</i>	
<p>Selection of Consultants under Loans Guaranteed by the Bank</p> <p>3.14 If the Bank guarantees the repayment of a loan made by another lender, the consulting services financed by the said loan shall be procured with due attention to principles and procedures that meet the requirements of paragraph 1.8. The Bank may conduct a review of the procurement transactions under the Loan upon its closure.</p>	<p>Selection of Consultants under Loans <u>and Payment Obligations</u> Guaranteed by the Bank</p> <p>3.14 If the Bank guarantees the repayment of a loan made by another lender, <u>or guarantees the payment of a non-loan related government payment obligation</u>, the consulting services financed by the said loan <u>or said payment obligation</u> shall be procured with due attention to principles and procedures that meet the requirements of paragraph 1.8. The Bank may conduct a review of the procurement transactions <u>under the Loan upon its closure financed on this basis</u>.</p>
<i>Anti-Corruption Guidelines for World Bank Guarantee and Carbon Finance Transactions – draft proposed changes to opening sentence:</i>	
<p>The purpose of these Guidelines is to clarify the meaning of the terms “Corrupt Practice”, “Fraudulent Practice”, “Coercive Practice”, “Collusive Practice”, and “Obstructive Practice” in the context of World Bank guarantee (partial risk guarantee and partial credit guarantee) projects; and carbon finance transactions, where the World Bank, as trustee of a carbon fund, purchases emission reductions under an emission reductions purchase agreement.</p>	<p>The purpose of these Guidelines is to clarify the meaning of the terms “Corrupt Practice”, “Fraudulent Practice”, “Coercive Practice”, “Collusive Practice”, and “Obstructive Practice” in the context of World Bank <u>project-based</u> guarantees (partial risk guarantee and partial credit guarantee) projects; and carbon finance transactions, where the World Bank, as trustee of a carbon fund, purchases emission reductions under an emission reductions purchase agreement.</p>

ANNEX 5: GUARANTEES APPROVED BY THE BOARD TO DATE
(US\$ Millions Guarantee Commitment Amount)

Board FY	Region	Country	Name	Type	\$ IBRD	\$ IDA
1994	EAP	China	Yangzhou Thermal Power	C - Partial Credit	57	0
	MNA	Jordan	Jordan Telecom PCG	C - Partial Credit	50	0
	EAP	Philippines	Leyte Luzon Geothermal Power	C - Partial Credit	100	0
1995	SAR	Pakistan	Hub Power Guarantee	R - Partial Risk	240	0
	EAP	China	Zhejiang Power Development	C - Partial Credit	64	0
1996	SAR	Pakistan	Uch Power Guarantee	R - Partial Risk	67	0
	EAP	China	Ertan Hydroelectric II	C - Partial Credit	50	0
1997	MNA	Lebanon	Power Sector Restructuring	C - Partial Credit	100	0
	ECA	Ukraine	Pre-Export Guarantee Facility	F - PRG Facility	120	0
	ECA	ECA Region	Commercial Space Launch (UA & RU)	R - Partial Risk	200	0
1998	MNA	Morocco	Jorf Lasfar PRG	R - Partial Risk	180	0
1999	EAP	Thailand	EGAT-INV PROG SUP PJ	R - Partial Risk	300	0
	AFR	Cote d'Ivoire	Azito Partial Risk Guarantee	R - Partial Risk	0	30
2000	LCR	Argentina	Policy-Based Guarantee	P - Policy Based	250	0
	SAR	Bangladesh	Haripur Power Project	R - Partial Risk	0	60.9
2001	ECA	Russia	Coal/Forest Guarantee Facility	F - PRG Facility	200	0
	LCR	Brazil	Brazil-Bolivia Gas Pipeline	C - Partial Credit	180	0
	LCR	Colombia	Policy-Based Guarantee	P - Policy Based	159	0
2002	AFR	Uganda	Bujugali Hydropower PRG	R - Partial Risk	0	[115] ¹
2003	EAP	Vietnam	Phu My 2.2 BOT Guarantee	R - Partial Risk	0	75
2004	AFR	Mozambique	Southern Africa Regional Gas	R - Partial Risk	30	0
	AFR	AFR Region	WAEMU: Capital Markets Development	F - PRG Facility	0	70
2005	AFR	AFR Region	West Africa Gas Pipeline	R - Partial Risk	0	50
	ECA	Romania	BANAT & DOBROGEA ELECT PRIV GUAR (CRL)	R - Partial Risk	76.7	0
	EAP	Lao PDR	Nam Theun 2 Power Project	R - Partial Risk	0	42
	LCR	Peru	Peru Guarantee Facility	F - PRG Facility	200	0
	AFR	Senegal	Elec Sec Efficiency Enhance Guarantee	R - Partial Risk	0	7.2
	AFR	Sierra Leone	Bumbuna Hydro Guarantee	R - Partial Risk	0	38
2006	AFR	AFR Region	Trade Transp Facilit Rail	R - Partial Risk	0	55
2007	MNA	Jordan	Amman East Power Plant	R - Partial Risk	45	0
	AFR	Uganda	Bujugali Hydropower PRG	R - Partial Risk	0	115
2009	ECA	Albania	Power Distribution Privatization PRG	R - Partial Risk	78	0
	AFR	Nigeria	Electricity and Gas Improvement PRG	R - Partial Risk	0	400
2010	AFR	Botswana	Morupule B Generation Project	C - Partial Credit	242.7	0
2011	ECA	Serbia	Policy-Based Guarantee	P - Policy Based	400	0
2012	AFR	Cameroon	Kribi Gas Power Project	R - Partial Risk		82
	ECA	Macedonia	Policy-Based Guarantee	P - Policy Based	134.9	
	AFR	Kenya	Private Sector Power Generation Support Project	R - Partial Risk	0	166
	AFR	Nigeria	Electricity and Gas Improvement Project Additional Financing	R - Partial Risk	0	200
	ECA	Montenegro	Financial Sector Policy Based Guarantee	P - Policy Based	79	0
2013	ECA	Macedonia	Second Policy Based Guarantee	P - Policy Based	201	0
	ECA	Croatia	Export Financing Guarantee Project	C-Partial Credit	256.4	0
	AFR	Cote d'Ivoire	Block CI-27 Gas Field Expansion Project	R-Partial Risk	0	60
Total					4,060.7	1,451.1

Note: Not all of the IBRD/IDA guarantee operations listed above have reached financial close.

1. The Uganda Bujugali Hydropower PRG approved in 2002 has been superseded by the same operation in 2007, for a different project sponsor. The total guarantee commitment amount reflects only the 2007 PRG, in order to avoid double counting