

# FAQs



## INVESTMENT LENDING REFORM

### Q 1. What is Investment Lending Reform?

A. Among the wide range of lending and non-lending solutions the World Bank offers to meet the world's development challenges, investment lending (IL) has long been the primary instrument of Bank (IBRD and IDA) lending. IL's value and importance extend beyond the financing: it is an important vehicle for sustained, hands-on global knowledge transfer and technical assistance. Clients continue to ask for IL even as they seek new and innovative lending products that provide quicker and more customized solutions.

However, the Bank's IL model has not fully kept up with borrowers' needs, and Bank staff are finding it increasingly difficult to respond to borrowers' demands within the confines of the old model. Therefore, IL Reform is an effort to modernize Investment Lending to better respond to changing client needs and the global environment while at the same time ensuring a high quality portfolio. It builds on feedback from clients and from earlier reviews like the IDA Controls Review.

### Q 2. What is IL Reform trying to do?

- A. IL Reform is organized around five pillars:
1. Focusing more on risk, and differentiating processes and resources by risk levels
  2. Moving from a culture of supervision to one of implementation support
  3. Rationalizing the menu of IL options

and introducing a new instrument designed to support government programs and more directly link disbursements to results

4. Creating an enabling environment (tools, training, templates) to support staff in implementing the reform
5. Revising the IL policy framework to make it simpler and principles-based. This will primarily focus on policies directly dealing with IL and not on fiduciary and safeguards.

### Q 3. What is the timeframe for IL Reform?

A. The Board discussed the IL Reform concept note on February 12, 2009; the first IL Reform Progress Report went to the Board on October 22, 2009 (that covered the first two pillars—risk approach and implementation support); and implementation of the first two pillars of IL Reform began in November 2009.

The roll out of the risk-based approach began in selected countries in FY10 and is mandated for all new investment operations beginning FY11. In addition, and as part of the implementation support pillar, a new simpler restructuring policy has been approved by the Board and is already in place. Task teams and Regions will receive assistance over the next 24 months to ensure they have the systems and support they need.

### Q 4. One of the pillars of IL Reform is the risk-based approach. What does this mean? What is different?

A. The risk-based approach introduced a new Operational Risk Assessment

Framework (ORAF). The ORAF will provide a tool for task teams and managers to look systematically and holistically at project risks. It also focuses on the risks to Development Objectives of the operation. Risk assessment is dynamic. It starts at concept stage, through appraisal and implementation. Assessment of the project's risk level allows teams to tailor the amounts of processing resources to that level—riskier projects receive more attention and monitoring, while less risky ones can proceed with simplified documentation and clearances. Similarly, teams can identify and respond to risks that may arise during implementation. The risk approach will also provide an important tool to review risk profiles of the portfolio at various levels. The risk assessment reviews will be integrated into regular reviews and will not add any additional steps.

In summary: the new risk-based approach helps teams design operations that take into account the operating environment, link risks to desired results and development objectives, differentiate projects on the basis of risks and adjust resource levels accordingly, create a better environment for learning about risks, and allow the Bank to examine the risk attributes of the portfolio. It is designed to help clarify for staff the Bank's appetite for risk under different circumstances.

**Q 5. How does this new approach help Bank staff?**

**A.** The new risk approach will provide a consistent approach to risk measurement across the institution. Processes will be tailored to risk levels: low-risk

operations will have fewer processes and will be prepared faster with fewer resources, while operations with higher levels of risk will have more processes focused on areas that reduce risk and improve the quality of the operation. Moreover, the risk-based approach will be used throughout operations (in both preparation and implementation phases).

For task teams, this will help in several ways:

- Simpler processes and documentation for operations that qualify for the fast processing.
- More focus on integrated teams through the design of ORAF that calls for integrated approach to risk.
- Allowing more space and resources for dealing with technical issues and capacity building through implementation support.
- Overtime, teams will also have more access to lessons about risk mitigation, what works and why through the learning that will be generated from the risk database.

**Q 6. How can we ensure that quality is not compromised when low-risk operations are processed faster?**

**A.** IL Reform aims to have the right level of controls for the level of risk. Through this differentiation teams can better identify and mitigate risks and allow resources for the areas that need more attention especially during implementation. The focus on better team integration will also help address quality. Finally IL Reform introduces more flexibility to allow teams to better respond to changes and risks during implementation.

The experience with additional financing is relevant. Under additional financing, projects with satisfactory performance (one type of low-risk operation) are processed quickly (on average in about 4 months) and at significantly lower cost without compromising quality.

## IMPLEMENTATION SUPPORT

### Q 7. How is “implementation support” (IS) different from “supervision”? Is it just a name change?

- A. It is more than a name change. The change in terminology characterizes a fundamental cultural shift in the way the Bank works to an emphasis on implementation, results, and learning, rather than the excessive focus on approvals and lending volume. It also reflects a partnership approach in which efforts are focused on supporting the implementation rather than one of reporting on what has happened only. The new concept also recognizes that there is no one model to support operations and the approach depends on the design of the operation itself and the support needed for its success. It also recognizes the more decentralized nature of the Bank and as such allows for alternative approaches in how the implementation support is carried out.

### Q 8. What improvements and changes will IS bring?

- A. It is expected that with increased IS, Bank-financed operations will produce new learning, genuine capacity building, and, most importantly, improvements in actual development outcomes/results.

The culture shift from supervision to IS can be achieved through:

- Supportive signals from the Board and management that IS and results are a priority for the institution; a new type of Operations Committee meetings (IS-OC) have begun where MDs chair a discussion about IS issues with all RVPs and OVPs with relevant TTLs and staff.
- Resourcing IS appropriately, particularly with respect to essential technical inputs; and providing critical training and skills development for better IS.
- Flexibility to adjust operations through simplified restructuring; (this is complemented by added flexibility for IDA countries who can now retain IDA resources when restructuring operations under specific conditions).
- Better reporting on results and management of risks during implementation.
- Training for staff on IS issues that will be integrated into the core curriculum for task team leaders.

## IDA CANCELLATIONS/ RESTRUCTURING

### Q 9. What changes have been made to the project restructuring guidelines and why?

A. The Bank has modified its procedures so that, if a project is not on track to achieve its objectives, it is easier for Bank and client staff to restructure it to improve its chances of achieving the intended results. The changes are as follows:

- Two levels of restructuring only, no more distinction between major and minor and are recognized by IEG at time of ICR.
- If a change in PDO or in the safeguards (from levels C or B to a level A or if a new policy is triggered), then this is level I restructuring; everything else is Level II and is approved by the CD.
- Restructuring is automated and will be web-based once the new IT platform is in place.

### Q 10. What changes have been made to the IDA cancellation policy?

A. For IDA countries, unused/cancelled IDA funds may now be retained in the country program and used for other programs/projects. This change will help ensure that scarce development resources go to where they can have the greatest impact. An OPMEMO has been prepared with the details as well as a guidance note to staff.

### Q 11. Do funds cancelled from IDA-funded operations have to be immediately reallocated to specific other projects?

A. When funds are cancelled, ideally the teams will indicate what they wish to use them for. However, in cases where this is not possible, teams can come back at a later stage and inform CFP about the use of the resources. Funds should normally be committed within the same FY and in all cases before June 30 of the last year of the IDA replenishment cycle within which the cancellation occurs. Please refer to the OPMEMO for more information.

### Q 12. What training and skills building will be provided for staff? How will they be supported?

A. Training is key to the success of IL Reform. Training is structured and delivered to match progress under the relevant pillars of the IL Reform (for example, training is already being provided Bankwide on the risk-based approach to getting results in IL). In addition, as part of the Bank Learning Strategy that is being developed, a Bankwide core operational curriculum for TTLs and task teams working on IL will be developed and rolled out during FY11. Finally, as part of the Operations and Knowledge Systems Program, training is being developed to ensure that task teams can efficiently use improved IT tools, including an improved Operations Portal and filing system.