

# Issue Brief

## INVESTMENT LENDING REFORM: Overview

The World Bank's business model and products continue to evolve. Clients are seeking—and Bank staff is developing—new and innovative lending approaches that are more flexible and provide quicker and more customized solutions.

The Bank provides financing to its clients through two lending instruments—Investment lending (IL) and Development Policy lending. A major effort is underway to reform the Bank's investment lending model—the Investment Lending Reform Concept Note was discussed at the Bank's Board in February 2009—so that it responds better to borrowers' needs and the changing global environment. Investment Lending reform will provide clients more flexible instruments, a faster response time and better development outcomes. A Progress Report went to the Board on October 22, 2009.

IL Reform aims to sharpen the focus on results and improve the management of risk that can affect the achievement of these results. It will address issues related to project preparation and focus more on implementation support to help clients undertake development programs and achieve better development results.

### PILLARS of Reform

IL Reform is based on five pillars:

1. Greater focus on results and risk and differentiating processes and resources to take into account the risk level
2. Moving from a culture of supervision to implementation support
3. Revising the menu of lending options for IL and designing a new instrument to support government programs and that links disbursements more directly to results.
4. Creating an enabling environment for teams to implement the reform (tools, training, templates)
5. Revising the policy framework for IL to a simpler, principled-based one.

### PILLAR 1: Risk-Based Approach

One of the first activities was to develop a way to focus formally on the risks to achieving an IL project's development objectives—a risk framework that is to be used from the project's earliest stages throughout implementation.

With the new risk framework, the Bank and its clients can design operations that better take into account the operating environment and link risks to achievable results and development objectives. Assessing risks early in the operation allows the Bank to differentiate processing by risk—lower-risk projects can be processed in a more streamlined fashion, while higher-risk projects can receive greater management attention. Similarly, repeating the risk assessment periodically during implementation can help identify emerging problems and allow the Bank and the client to devote greater attention to these aspects.

**Timetable.** The Operational Risk Assessment Framework (ORAF) was introduced in October 2009. Its use was piloted in all

Regions during the first half of 2010, and the feedback from those pilot experiences was used to fine-tune the ORAF and its procedures. At the same time, new templates were developed for the project processing documents. Use of the ORAF will be mainstreamed to all IL operations on July 1, 2010.

### PILLAR 2: Implementation Support

Once the Bank's Board of Executive Directors approves the commitment of funds to support an IL project, it is the borrower's responsibility to carry out the project. During implementation, the Bank has traditionally taken a *supervision* role—that is, overseeing the project activities to ensure compliance with the legal agreements and with the Bank policies and procedures that are incorporated in those agreements. IL Reform involves a culture shift—from a culture of supervision to a culture of *implementation support*, in which Bank teams spends a greater proportion of available resources helping clients support implementation and build capacity.



In addition, as we introduce the risk-based approach, it is important to provide more flexibility to respond to the risks and changes during implementation. To this end, the Bank has introduced two important changes to its internal practices.

- **Project restructuring.** 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.
- **Recommitment of IDA resources.** When carrying out such restructuring, IDA countries can now use cancelled balances from such operations for other operations in the country within a specified time period.

With this greater flexibility, the Bank and client can work together to restructure projects to adapt to changing circumstances, using scarce development resources as effectively as possible.

### PILLAR 3: IL Financing Menu

As one element of a consolidated and rationalized lending menu, management is working to develop a new results-based lending product (RBL) that would support a government's program in particular sectors or subsectors with a clearly defined results framework. Under the RBL, disbursements for expenditures and investments would be made against intermediate and monitorable results or indicators that are judged to contribute to final outcomes and are largely within the control of the government. This new instrument is under design and once the concept is approved by the Board of Executive Directors, management will carry out consultations and then return to the Board for discussion and, if appropriate approval.

This pillar also involves a simplification of existing financing options to better match the demand from clients. This will be closely related to Pillar 5.

**Timetable.** The Bank's management and Board are discussing the parameters of the proposed new instrument during 2010. In the same time frame, the overall financing menu for IL will also be revised.

### PILLAR 4: Enabling Environment

The pillars of IL Reform can be successful only if the work is supported by a broad range of related activities.

- **Training.** Training in the risk-based approach is being delivered, as well as on restructuring guidelines. Training in other components will be designed and delivered as each component is rolled out. Moreover, a core curriculum for task team leaders is being designed and will be implemented in the calendar year 2011.
- **IT.** The Bank is developing IT platforms to support the new processes and documents.
- **Budget.** The Bank is examining the resource implications for project preparation and implementation support.
- **Accountability.** The Bank is exploring the role and importance of its staff incentive system and clarifying lines of accountability.
- **Communications.** The Bank has an extensive program of internal and external communications, including consultations with clients and development partners.

### PILLAR 5: Policy Framework

Once the other pillars are largely in place, the Bank will turn its attention to the policy framework for IL. The plan is to simplify and rationalize these policies, basing them on principles rather than prescribed actions, and providing detailed guidance to staff on these. This will primarily focus on policies related to IL projects and not on fiduciary and safeguard policies that govern current IL projects.

**Timetable.** It is expected that the work will be carried out in the second half of 2010 and early 2011.

For more information on the IL Reform effort, please visit  
<http://worldbank.org/investmentlendingreform>

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