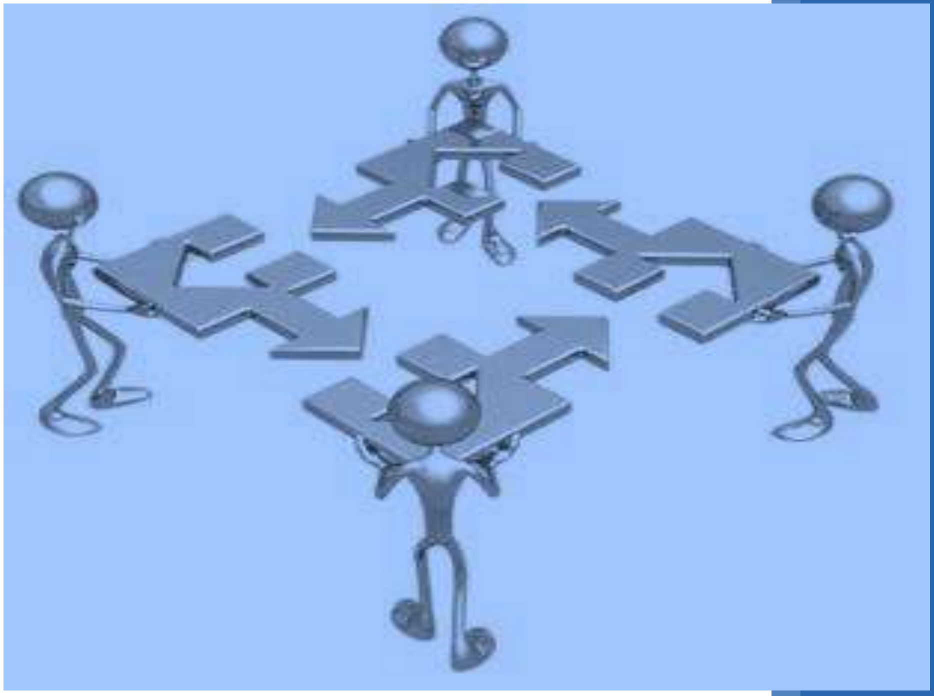
2013

Investment Project Financing
Project Preparation
Guidance Note



OPSPQ

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This guidance note is intended for internal use by Bank staff. The note will be updated and complemented from time to time.

Contents

Section I - Overview

1. Investment project financing (IPF) allows the World Bank to finance projects that aim to promote poverty reduction and sustainable development of member countries. Borrowers may choose the IPF instrument based on their objectives, the results they expect to achieve, and the risks they face, taking into consideration the following key characteristics:

- IFP instrument support projects with defined development objectives, activities, and results.
- IFP instrument finances a specific set of expenditure transactions and disburses the proceeds of Bank financing against eligible expenditures.
- IFP instrument puts the emphasis of Bank/borrower relations to assure that the right inputs and technology are in place and are implemented as planned to achieve the project's expected results.
- IFP implementation is based on Bank's rules and procedures.

2. This guidance note is intended to assist Bank staff supporting borrowers in the preparation of investment projects, in a manner consistent with Operational Policy/Bank Procedure (OP/BP) 10.00, *Investment Project Financing*.[1] This note provides a framework for advising borrowers during the preparation phase of a project and proposes examples of areas to be explored and questions to be discussed as a means of fostering the dialogue and partnership between the Bank and the borrower.

3. **Purpose and guiding principles underpinning project preparation.** The preparatory phase of an investment project sets out the stage for project implementation and is a crucial step in shaping the project's likelihood of achieving the expected results. When advising borrowers during the preparation phase of an investment project, the following discussion points focus on some useful considerations to guide the process:

- ***Fostering borrower ownership and project sustainability.*** Borrowers are the owners of Bank-financed projects, and as such borrowers are responsible for the project design and ultimately the achievement of the project development objectives (PDOs). As a development partner, the Bank has vested interest in supporting the borrower's efforts in achieving and sustaining the goals pursued through a Bank-financed investment project. Ensuring that the borrower is committed to and prepared for project implementation is critical. Without commitment and a genuine sense of ownership, it is unlikely that the project objectives can be met or sustained.

- ***Supporting and helping clients achieve specific development objectives.*** Bank's efforts during project preparation normally focus on providing advice to the borrower

[1] This note applies to all investment projects supported by IBRD/IDA loans, credits, grants, and recipient executed trust funds. Additional guidance is available for preparation of Fiduciary Intermediary Loans (FILs) [forthcoming], Series of Projects Guidance Note, Projects in Situations of Urgent Need of Assistance or Capacity Constraints (FCC) [forthcoming], and Additional Financing Guidance Note. For more information and practical examples on project preparation, teams are encouraged to review the Operational Core Curriculum (OCC) e-learning modules.

on different alternatives to addressing specific development issues and tailoring solutions to achieve anticipated results based on the particular circumstances. Understanding the borrower's expectations and objectives is important and helps the task team to outline alternatives and agree with the borrower on the most appropriate approach. Sometimes however, the borrower may have an idea in mind but not a clear project concept. If this is the case, one of the early goals for the task team is to help the borrower define the concept and scope of the operation as a means to (a) confirm that the proposed project development objectives effectively contribute to address the development issues pursued by the government, are aligned with the Country Assistance Strategy (CAS), and are achievable and attributable to the project (or, in other words, they make sense); (b) that activities under the project are likely to be economically justified; and (c) that Bank financing is actually required for such purpose.

- ***Finding an adequate balance between risks and results.*** Social and economic development is a complex and highly uncertain business. Risks to successful outcome of a project come from a wide range of sources. Project preparation is a dynamic process; it aims to find an adequate balance between risks and results. During preparation, the borrower identifies possible risks to results and adapts project design and scope to address those risks that can be mitigated while acknowledging those that cannot. Risk assessments are a key input to the Bank's decision on whether or not to go forward with the preparation of a new investment project; the assessment allows for an informed discussion of trade-offs between risks and results. This dynamic risk-results assessment process is a key tool to adjust the project's scope/design to improve the likelihood of achieving the expected results.[2]

- ***Making good use of information.*** Project preparation is guided by different sources of information. Task teams are encouraged to start compiling and reviewing information to familiarize themselves early in the process with the country, sector, and project settings. In most cases, useful information is already available but must be located. The main and most valuable source of information is typically the borrower. Teams normally obtain most of the information needed by asking questions to the borrower and following up with other sources (i.e., development partners, key stakeholders, private sector, NGOs, think tanks). Within the Bank, task teams usually rely on information that has been collected from current and previous engagements in the country, including lending operations, economic and sector work, CASs, Country Partnership Strategy (CPS), IEG reports, flagship reports, Project Appraisal Documents (PADs) from similar projects in the same sector in different Regions or the same sector in the country, and/or relevant experiences in similar sectors or project across the Bank. This initial review of available information also serves the

[2] For instance if project design calls for innovative or technologically complex solutions but the capacity to implement such solutions is not in place to the point that the likelihood of said solutions being actually implemented is very low, the borrower may be better off deciding on alternative designs better aligned with their capacity to increase the likelihood of implementation and achievement of the PDO.

purpose of identifying gaps and discussing the needs of additional studies that need to be conducted to inform project assessment and appraisal.

- ***Building Bank's added value.*** Throughout project preparation, there are different opportunities for the Bank to bring value added to the borrower by combining its financing with global knowledge and experience, and applying its convening power to mobilize resources from other partners, as needed. Such opportunities will vary depending on the project's nature and could be manifested in different forms (discussed in section III). The Bank's active role and the quality of its intervention in assisting the borrower with preparation activities helps improve the outcome of the operation.

- ***Ensuring compliance with relevant Bank policies and procedures.*** The IPF proceeds assigned to a Bank-financed project are to be used solely for the purposes under which the financing is granted with due regard to considerations of economy and efficiency.[3] Given the characteristics of this lending instrument, this means that one important role of the Bank during project preparation entails supporting the borrower so that acceptable mechanisms and oversight arrangements (including fiduciary) are established and/or remain in place throughout the project cycle to ensure compliance with relevant policies and procedures as dictated by OP/BP 10.00.

Section II – Setting the Stage for Effective Project Preparation

4. The preparation phase of an IPF operation usually begins once a proposal to address a development issue is identified and discussed between the borrower and the Bank. This proposal can result from (a) a discussion surrounding the definition or update of the Bank's CAS or CPS, (b) a joint borrower/Bank evaluation of the Bank's portfolio of activities in the country and sector analytical work, which identifies potential areas for Bank support; (c) a follow-on project from a successful operation; or (d) the occurrence of an unexpected emergency need (e.g., natural disaster, financial crisis) as well as other preliminary sources. Normally this dialogue is formally conducted between the borrower (usually through the Ministry of Finance and/or Planning) and the Bank's Country Director. Moving the process forward internally in the Bank involves a discussion between the Country Director and the relevant Sector Manager(s) to decide on the allocation of resources to the preparation activity, the appointment of a team leader and a task team, and agreeing on a tentative delivery schedule as part of the Activity Initiation Summary (AIS) process.[4]

5. From a team leader's perspective, once given the authorization to prepare the project, setting the stage for project preparation includes, among other aspects, (a) planning and making

[3] IBRD Articles of Agreement, Article III, Section 5(b).

[4] The AIS provides key initial information about the project (e.g. initial name, PDO, cost, key milestone dates, and team composition). Approval of the AIS releases the project preparation budget and establishes key processing benchmarks to monitor preparation.

good use of Bank resources; (b) understanding the quality assurance process and the impact that quality at entry has on the project's performance; (c) understanding the objectives, roles, responsibilities and constraints of key actors during project preparation; (d) factoring in differences in project preparation approaches based on project types and operating environment circumstances; and (e) engaging in and nurturing a partnership with the client and other development partners if applicable.

6. **Planning.** Planning ahead and visualizing the key steps that will lead toward approval of a project is an important step for the team leader to organize and make the most efficient use of resources. This multi-step process would normally start with the following:

- Reviewing and becoming familiar with the policies and procedures related to project preparation;
- Understanding the key documents that need to be prepared and who is responsible for what;
- Having a general idea of the time required to complete the different tasks involved and steps to be covered;
- Distinguishing the key decision points, identifying who is involved in making those decisions, and understanding the actions and information that will be required for such decisions to be made;
- Aiming to define the final project scope rapidly;
- Identifying the potential key roadblocks and critical steps within the Bank and with the borrower;
- Assembling the team for the job; and
- Understanding the variables that can be influenced.[5]

7. With these considerations in mind the team leader will be in a better position to propose a project preparation timeline, identify key milestones, and discuss the proposal both internally and with the borrower. Sometimes it is helpful to prepare a detailed preparation schedule starting backwards from the target Board date, to help keeping track with the preparation timeline.

8. Planning also serves the purpose of anticipating when and how Bank resources are best used during the different stages of project preparation. Since project preparation budgets are limited, the team leader has an important role in prioritizing how resources are allocated among different tasks based on the different project preparation milestones. Some considerations in this regard are to (a) tailoring the missions' size to its objectives (typically, the size of an identification mission is quite smaller than that for an appraisal); (b) optimizing the use of resources and staff time following project preparation demands (e.g., seek guidance from relevant specialists as needed but do not expect specialists to make significant progress on the relevant assessments before the project scope is sufficiently firmed up); and (c) making use of new communications technology and encourage the borrower counterparts to do the same.

[5] For example, don't commit to a 6-months project preparation if the country needs 4 months to organize negotiations.

9. **Understanding the due diligence, risk management, and quality assurance process.** Planning also involves becoming knowledgeable of the process that takes place during the design stage of an investment project and the resources available to staff to support the borrower's efforts in achieving a well-prepared, risk-balanced, and compliant project. Quality at entry is a key determinant of the project's performance and success during implementation and as such is one of the dimensions used by the Independent Evaluation Group (IEG) to measure the Bank's performance once a project has been completed.[6] Different dimensions may have an impact on the project's quality at entry; among these dimensions include the adequacy of the links between inputs, outputs, outcomes; the alignment among expected results, risks and risk management measures, the complexity of the project design, and the capacity to implement such design; the existence of adequate implementation arrangements that include those required to monitor the progress and evaluate the impact of the interventions; and the compliance with Bank processes and procedures. Task teams are encouraged to become familiar with the different resources available to review and improve the quality of an operation during the preparation phase and seek support when needed.

10. **Understanding the objectives, roles, responsibilities, and constraints of key actors.** Project preparation is a dynamic process involving many actors and stakeholders. Understanding the role of the main stakeholders and their points of view vis-a vis the proposed project helps the task team to smooth the preparation process and anticipate possible issues that may arise.

11. ***Borrowers*** take the leading role in the preparation process. They are responsible for the design of the operation and ensuring ownership and commitment to the objectives, which on many occasions requires devoting great effort in aligning different interests (within the Government at different levels, among its constituency, with other development partners, etc.) to increase buy-in and follow internal due processes. Borrowers may need to follow detailed and sometimes time-consuming steps to appraise projects and obtain approval for taking on new financing for investment operation, including obtaining parliamentary approval for the project. They may need to consult with various stakeholders to guide the design process of the project (e.g., consultations with communities affected by the project either positively or negatively). These consultations and alignment of interests may require substantial time allocation. It is important for the task team to understand these processes, plan accordingly, and factor into the preparation timeline to "match" the Bank process; it is not uncommon that the Bank can contribute to this process through its policy dialogue and analytic work.

12. ***World Bank*** plays an important role during preparation, supporting the borrower's efforts, particularly with regards to (a) advising about Bank requirements, processes, and procedures; (b) helping find timely financing and technical assistance necessary for the preparatory work; (c) convening other donors to support the project if needed; and (d) providing a complementary role in aspects where the Borrower has limited capacity (for instance, in terms of providing technical advice on the inputs and technology to be used to obtain the outputs of the

[6] "Quality at entry" refers to the extent to which the Bank identified, facilitated preparation of, and appraised the operation such that it was most likely to achieve planned development outcomes and was consistent with the Bank's fiduciary role.

operation, or strengthening the institutional capacity of the agencies involved). In exceptional cases, the Bank may itself carry out preparatory work (Bank-executed operation).[7]

13. ***Bank staff.*** The staff is the most valuable asset within the Bank's organizational framework to fulfill its function and maximize the value added to the borrower. Many different roles are involved in the processing of an investment project:

- The ***task team*** is responsible for supporting the borrower in the preparation process, appraising the project, and preparing the project documents and legal agreements to reflect the final project design. The task team includes a team leader, different specialists depending on the nature of the operation, as well as a lawyer and finance officer.
- The ***team leader*** (a) serves as the Bank's principal point of contact for the borrower; (b) manages the project, which includes coordinating the Bank budget and other funds allocated to the project, reporting to Management on progress and issues; coordinating the work plan; and coordinating the filing of relevant project information; (c) coordinates the task team; (d) brings technical expertise; (e) coordinates and provides substantial input for the preparation of multiple documents throughout the life of the project, making the final recommendation to Management on the different packages (concept, appraisal, negotiations, Board).
- The ***specialists*** provide advice to the team leader and clear specific aspects during project preparation from their area of expertise; the experience is drawn from technical, procurement, financial management, environmental and social safeguards, monitoring and evaluation, or other expert fields as required by the project nature. The procurement specialist for example, provides advice on the preparation of the procurement plan, clears the procurement plan, and advises on institutional arrangements to implement the procurement plan efficiently. The financial management specialist reviews the implementing agency's financial management systems, including audits, and provides advice on institutional arrangements to monitor the use of project funds. The safeguard specialist provides advice as needed on compliance with the Bank's environmental and social requirements and clears the ISDS (concept and at times appraisal). The sector specialists provide advice on technical issues.
- The ***lawyer*** provides advice on all legal issues, prepares the legal agreements, and clears the negotiation and Board package.
- The ***finance officer*** provides advice on the disbursement arrangements for use of Bank funds and clears the negotiation and Board packages.

[7] The Bank may execute grants or trust funds for project preparation or country-specific technical assistance, upon the written request of the recipient, provided that the execution of the grant will not cause potential liability or conflict of interest for the Bank. Examples of circumstances which may justify Bank execution of recipient activities are situations where the recipient is a new member country or inactive borrower, or where its administrative capacity has been adversely affected by civil strife or natural disasters.

- The ***sector manager*** is responsible for ensuring that the team has the correct skills mix to support project preparation effectively and for the overall quality of the project by concurring with the concept, appraisal, and negotiation packages recommended by the team leader.
- The ***country director*** decides on different aspects during the project preparation process, including the allocation of resources to support project preparation, appraisal, and negotiations; moving ahead with project preparation; moving ahead with appraisal (unless project follows ROC or OC decision review, in which case the decision is made by the Regional vice president or Managing Director, respectively); and authorizing negotiations.
- The ***Regional vice president*** makes the final decision on submitting a project for Board approval.
- The ***Region's Operations Services Department*** provides advice and guidance to Regional staff and advice to Regional Management on enhancing development effectiveness and meeting Bank quality and fiduciary standards during the project cycle. Task teams are encouraged to contact this Department to obtain guidance on the corporate processing steps and documentation, as well as on how to ensure quality project preparation and implementation.
- The ***Sector Boards and Networks*** are available through sector staff to advise the task team. Where and when needed, task teams may request support from the Boards or Networks in dealing with special technical issues and risks.

14. ***Development partners*** (if applicable). Development partners may provide advice to the borrower and the Bank on related activities that may impact on the achievement of the proposed project and may participate in preparation and financing of the proposed project.

15. **Factoring in differences in project preparation approaches based on project types and operating environment circumstances.** Given the wide variety of countries, sectors, and activities that an IPF operation may support, there is no single preparation approach that fits all projects. Project design considerations and resources that are required may differ based, for instance, on (a) the type of IPF-supported project activities (e.g., works for infrastructure-related projects versus advisory services or goods for institutional reform-type projects); (b) the number of activities to be financed by the project (few high-value activities versus many, small-valued, and/or scattered activities); (c) the level of decentralization (activities implemented at the national level versus activities implemented by many subnational entities); (d) the level of participation of communities in the project design and implementation (community-driven development projects); (e) the country circumstances (countries with adequate capacity to prepare and implement a project versus countries with capacity constraints or affected by conflict, fragility or security issues); and (f) the project impacts and level of consultations required. Following are three illustrative examples of specific project types that better describe the differences these variables make in terms of preparation approaches.

- ***Projects that rely on one or just a few well-defined activities to achieve its PDOs***. In this type of projects (usually involving large-scale works contracts) all the activities to be financed have been identified from the onset, and as such the degree of definition that can be achieved during the preparation stage is very high. The preparation phase serves to complete the detailed technical designs for each of the activities, allowing for relevant assessments (technical, economic, social and environmental, fiduciary, etc.) and specific plans (procurement, safeguards mitigation, etc.) to be fully developed at this stage.

- ***Framework approaches***. In contrast to the activity-defined projects described above, there are some projects where at the preparation stage the definition focuses on the type of project-financed activities but not necessarily the identification of each of the specific activities. One example that falls into this category would be a rolling program of yearly interventions targeting different geographical areas. Only a few activities (usually those to be financed during the first year or so of project implementation) are identified and well defined during preparation (known location and detailed studies available) and are appraised based on specific details and management plans. Eligibility conditions are designed to select future interventions during implementation, and management frameworks (safeguards, disbursements, etc.) are designed to be applied to those future interventions.

- ***Community-driven development (CDD) projects*** is a special category of the framework approach mentioned above. The CDD approach to development supports participatory decision-making, local capacity building, and community control of resources. The CDD approach can create sustainable and wide-ranging impacts by mobilizing communities, and giving them the tools to become agents of their own development.[8] Usually, CDD projects finance a high number of small-value transactions scattered across rural areas, supporting initiatives from different community-based organizations (CBO) and/or local governments. Given the participatory approach in the decision-making process and the fact that the activities to be financed are demand-driven, a general program of activities is identified during project preparation, but only a sample of specific activities may get to be appraised. Again, these type of operations rely on management frameworks, eligibility criteria, and processes defined during the preparation phase that need to be followed during the implementation stage, as opposed to having detailed designs, specific management plans, etc. before project implementation starts. A detailed operational manual tends to be an essential tool for this type of operations to describe in great detail but in simple terms the processes, procedures, and guidelines to be followed by each of the CBO or local governments handling the project.

16. **Engaging in and nurturing a partnership with the borrower and other development partners.** In order to better serve Bank clients it is important for Bank staff to dedicate time to understand and develop a working relationship with the borrower and other development

[8] See Community Driven Development on the Social Development topics page.

partners in the country. For such purpose, once a task has been identified, task teams usually devote time getting to know their main counterparts and those of other development partners to set-up solid foundations for a long-term engagement; these individuals will be interacting with one another during the life of the project. If the implementing agency is new to the Bank, teams normally would visit the implementing agency offices and review their organizational charts, annual budget and annual work programs, and their vision statement or strategy document; and take incentives to generally be better positioned to work with the new agency.

17. Understanding the borrower's concerns and the issues that it is trying to address is an important step in establishing a strong partnership between the Bank and the borrower. Similarly, understanding the role of other development partners in addressing the borrower's needs is important to better coordinate tasks and serve the borrower. Sharing a common objective becomes the building block that guides the efforts throughout the project cycle.

18. Teams strive to develop an open and mutually respectful relationship with their counterparts. The development of a healthy partnership in the framework of a Bank-financed project entails acknowledging the borrower's leading role and remembering that the Bank's main function is to provide advice and bring value added so as to design a project that efficiently meets the borrower's objectives with sustainable results. The borrower's perception of how the Bank can bring value added is a key determinant of such engagement and the most influential tool to build trust and credibility. Having built the credibility will prove essential, particularly when differences of opinion arise. It is useful to remember that the Bank is providing advice, not advocating; thus the analytical rigor that the team brings to the table along with concrete facts and examples from relevant experience will help to better position the task team to reach agreements and maintain a good working relationship with the borrower.

19. Practical pointers for task team members to engage and maintain a healthy relationship with borrowers and development partners include (a) being courteous and diplomatic even when situations are tense; (b) being respectful of time, arriving on time for meetings, and ending meetings on time; (c) remembering the leading role of the borrower in project-related matters, which, for instance, would call for the borrower to chair project meetings and allow the borrower to deal with contractors and service providers; (d) avoiding situations that could put the Bank in awkward situations or harm the relationship with the borrower such as attending events paid by contractors and consultants, accepting gifts, writing documents in a non-diplomatic tone, and providing instructions to consultant/contractors.

Section III – Preparation: From Identification to Approval

A. Identification through Concept

20. Identification is the first stage in the preparation cycle for an IPF operation. Once a formal request from the borrower has been received, and following consultations between the country management unit (CMU) and sector management unit (SMU), the task team starts planning and preparing to carry out an identification mission.

21. **Identification mission.** The team leader identifies key topics to be discussed during the mission and proposes a list of activities and meetings to carry out and the team composition needed,[9] usually reflecting those aspects in the statement of the mission objectives. Such choices and the degree of effort required to plan and organize this mission, and more generally the preparation process, are influenced by the level of knowledge the team has about that particular country and the sector/s involved.[10]

22. When preparing for the identification mission, it is important to keep in mind that the purpose of such mission typically is to discuss the foundations of the possible project and to conduct an initial assessment of the preliminary project proposal to determine whether it is a development priority of the borrower and whether the Bank should support it. The assessment focuses on the strategic rationale of the project and relation to the relevant CAS, aiming at establishing the relevance of the project in terms of its development impact, determining whether public sector provision or financing is the appropriate vehicle to undertake the task, and discussing the Bank's value added in supporting the project. These are the fundamental questions upon which the economic analysis is to be based.[11]

23. With the above considerations in mind, the identification mission serves to have a preliminary discussion about (a) the PDO; (b) main expected results and beneficiaries;[12] (c) project scope, including possible components and type of activities to be financed; (d) possible implementation arrangements; (e) possible financing requirements and alternative project approaches; (f) possible risks to achieving the PDO; and (g) timeframe for project preparation, key steps, and possible resources required.

24. Depending on the nature of the project and the Bank's knowledge of the country/sector, the types of activities that are conducted during an identification mission may vary. For instance, the project's concept may be easier to define in some sectors than in others and in such cases, depending on the stage of project idea development, borrowers may find the identification mission useful to brainstorm with the Bank on how to turn an idea into a concrete project concept. Some activities/discussions that may take place at this stage, and that will be continued during project preparation, include the following:

- ***Discussing the borrower's project idea/proposal*** in detail to better understand the issues that are to be addressed. This would include the project's objective, main project beneficiaries, and identifying relevant stakeholders.

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9 Typically, the core team is not fully mobilized at this stage.

10 For instance, if the new project proposal is a follow-on project, task teams usually take advantage of the economies of scale combining implementation support meetings of current operations to initiate project identification of the follow-on operation.

11 For detailed guidance on the purpose and how to conduct the economic analysis for an IPF, refer to Economic Analysis Guidance Note.

12 Since many countries may not have results frameworks in place, often the first step would be to define with the borrower a result framework for their programs, before preparing the results framework for the project.

- ***Discussing the institutional/organizational framework in place*** for the sector in which the project proposal will be implemented, including the overall sector strategy/policy, how the project can be aligned to complement these strategic directions and key actors in the decision-making process.

- ***Reviewing the expenditure program and priorities for the sector*** in which the proposed project will take place to better understand how the proposed project would fit into such expenditure program.

- ***Identifying and discussing possible alternative approaches***. The Bank's international expertise and knowledge becomes more relevant in shaping the project concept if helping the borrower think through different approaches when facing a problem and discussing how others have dealt with it.

- ***Discussing the scope of the proposed project***, including possible project components, expenditures, and type of activities under probable budget/financing scenarios.

- ***Identifying possible agencies*** *that will be in charge of project preparation and implementation.*

- ***Discussing general requirements and key steps during project preparation*** based on the nature of project-financed activities. In the case of civil works, for instance, teams go over the process of preparing cost estimates, feasibility studies, environmental and social assessment, technical specifications, and bidding documents; and in the case of consulting services, teams discuss preparation of terms of reference, request for proposals, identifying qualified specialists, and identifying international relevant experiences that could be studied.

- ***Reviewing certain key processes and procedures at the implementing agency level*** *(if such agency has already been defined)* is relevant for implementation of the proposed project to identify possible gaps and/or capacity constraints that would need to be addressed (for instance, budget allocation, planning, investment prioritization, technical designs, works execution, supervision of works, and training).

- ***Initiating discussions regarding the proposed implementation arrangements,*** bearing in mind that to increase the project's sustainability and its developmental effectiveness the objective is to build-on the existing capacity.[13] Helping borrowers to deepen and increase their own implementation capacity is an overarching objective of all IPF activities. Wherever possible, teams should look to support existing implementation units or departments in preference to establishing new implementation structures. In addition to helping borrowers strengthen their own national systems by working with

[13] In cases where the implementation capacity is weak, it is may be relevant to support the inclusion of a technical assistance/capacity building component in the project.

the Bank, the use of existing capacity can ensure greater sustainability of project and sector outcomes since the unit will remain in place even after the project has ended.

- ***Discussing financing needs for the project and possible sources available***. Financing for investment projects can include IBRD loans, IDA credits or grants, trust funds, or a combination of several of these sources. A project can also be financed through a combination of the client's own resources (budget) with grants and/or loans from other development partners (through either joint financing agreements [14] or parallel financing[15]). Regardless of funding sources, all IPF operations follow Bank policies and procedures (only in the case of parallel-financing arrangements would the partner's procedures be followed for the portion financed by said partner). Task teams are encouraged to become familiar with the different alternatives available to better assist borrowers in defining the best option for their particular needs, taking into account the pros and cons of each alternative and the implications each of them may pose in terms of assessing results and risks to results. Under joint financing, results frameworks include both the results financed with Bank proceeds and those financed by others; so risks to achieving results have an added dimension related to this dependency.

- ***Discussing type of activities and expenditures that can be financed by the Bank.*** An IPF instrument allows for a wide range of expenditures to be financed by the Bank. However, the team needs to be aware of those expenditures that are deemed to raise particular risks (land expenditures, compensation for involuntary resettlement, food expenditures, severance payments, interests during construction, secondhand goods, compensation for vendors for late payments, leased assets, demining) and discuss with the borrower related mitigation measures in the event any such expenditures are to be included in the proposed project.[16]

- ***Consulting with key stakeholders (including development partners) as needed.*** Consultations with other key stakeholders and development partners are conducted to confirm that the project has broad support and is compatible with local conditions. For instance, the team may consult with (a) project beneficiaries to discuss whether the proposed project meets their needs and is likely to be supported by the local community; (b) government agencies/jurisdictions that will have a role during implementation to identify whether there are capacity or coordination issues that would need to be addressed; (c) civil society and NGOs which often play an important role in the success of development projects, either directly through their involvement in project

[14] The Bank and other donors combine financial resources into a single common agreed project supported by appropriate legal arrangements. In most occasions, pooled funds follow joint procurement, disbursements, reporting, and auditing mechanisms, usually following Bank policies (whenever US$1 million of Bank financing is put in the pool of funds). This requirement may pose difficulties for other partners to join the pool. These arrangements enable harmonized policy dialogues although may require extra coordination efforts.

[15] The Bank and other donors finance separate projects supporting a common program, but without any formal linkages between the project activities through a legal agreements. Each financing institution applies own policies and procedures. There are positive incentives to maintain coordination and use collective policy dialogue mechanisms. It is useful when pooling of funds is difficult as it can accommodate donors with constraints to pool. Extra efforts to harmonize and use of country systems are required and incentives are weaker. Usually poses higher coordination/transaction costs.

[16] Refer to the Track 2 Instructions.

implementation or indirectly in terms of mobilizing community support; and (d) other development partners as they often have a range of experience in similar projects in the country that can be valuable for project preparation. In addition, the Bank team should ensure that the proposed project is consistent with the programs of other donors, and possibly whether other donors may wish to participate directly or indirectly in the financing and/or implementation of the Bank-supported project. It is good practice to summarize these discussions and keep a record in project files.

- ***Identifying the key constraints or risks to the achievement of the development objectives***, based on the preliminary discussions. Risk assessments are a key input to the Bank's decision whether or not to go forward with the preparation of a new IPF operation, helping to determine and maintain an adequate balance between the expected results of an operation and its risks. This risk assessment is a key tool for helping the team achieve the following: (a) identify risks that can be mitigated, adjusting the project's scope/design to improve the likelihood of achieving the expected results; (b) define an action plan to manage the risks, establishing specific risk mitigation measures as well as capacity-building activities to address those risks; and (c) determine the level of Bank implementation support for the project based on its risk profile. In addition, the risk-based approach is designed to assist in deciding on the processing speed based on risk and in allocating resources to the areas that are burdened with the greatest risk.[17]

- ***Agreeing on a preliminary list of preparation activities and key dates***. The team discusses with the borrower the list of activities to be completed during the identification visit and before appraisal to set up a working plan.

- ***Informing the borrower about the Bank's Access to Information Policy and its implications during project preparation***. The team discusses the Bank's Access to Information Policy that applies to IBRD and IDA and describes the disclosure requirements for certain documents that will be produced during preparation (PID, ISDS, PAD, etc.).[18] The Policy allows access to Bank's disclosable information and enables the public to track a project through the course of the project lifecycle.

25. In weak capacity situations and/or in countries with limited resources, the borrower may request Bank assistance to obtain funding for project preparation (including preliminary and detailed designs and limited initial implementation activities). Potential sources include borrower's own funds (proceeds of previous Bank loans provided that the respective loan agreement allows funds to be used for project preparation, trust funds, or project preparation advances); or funding from other development partners. If the borrower decides to request a project preparation advance, it is useful to bring this to the attention of Bank Management early in the process so as to have sufficient time for processing the request and enable enough time to effectively use the resources as needed according to the preparation schedule.[19]

17 Detailed guidance on how to conduct a risk assessment can be found in Operational Risk Assessment Framework Guidance Note.

18 Refer to Access to Information Policy (effective July 1, 2010).

19 Refer to the Project Preparation Facility section of the Track 2 Instructions.

26. **Preparing for a concept review**. With the information obtained during the identification mission, the task team (usually the team leader) prepares a Project Concept Note (PCN), which is an internal document that details the basic project concept so as to facilitate Management's decision as to whether project preparation should go forward or not. The PCN focuses on the relationship between country- and project-level outcomes, including (a) linkages to the CAS, (b) rationale for Bank involvement, (c) expected results, (c) overall design and approach, (d) partnerships, (e) risks, and (f) guidance requested on key issues with less concern about description of project components and detailed design issues. The team leader would normally be ready to schedule a concept review meeting when enough information has been gathered to complete the different sections in the PCN.

27. When writing the PCN it is important to have a clear and concise story line that addresses the key guiding questions in the PCN template[20] and to ensure consistency across the document (for instance, looking at whether the project risk profile in the ORAF is consistent with the narrative in the PCN main text). The drafting of this document usually benefits enormously from having an integrated discussion among the team specialists to develop a holistic view of the main elements and different perspectives defining the proposed project and its associated risks. Such integrated discussion also helps to better identify the key areas on which the team should focus the request for advice at the review meeting.

28. Based on the areas for which the team is seeking advice and the specific characteristics of the project, ***peer reviewers*** are selected taking into account the relevant areas of expertise across the Bank (and sometimes from outside the Bank). Usually the sector manager in consultation with the team leader selects the peer reviewers. The number of peer reviewers depends on the specific project circumstances, but usually 3 to 4 peer reviewers fill the need. The selection of the peer reviewers is fundamental to support the quality enhancement of the project design and to get the team the most relevant and impartial advise possible. Peer reviewers are expected to provide advice on technical, operational, and/or implementation aspects of a project within their respective areas of expertise and bring value added to the team, for instance, by sharing experiences on the performance of similar projects in other Regions or on how they have dealt with specific issues being faced by the task team in other contexts.

29. It is useful to prepare a decisive list of questions/topics on which the team would like to receive advice from the participants in the ***review meeting***. The list should be distributed with the concept package ahead of the meeting to obtain some initial feedback. Such feedback will be useful to help the team organize the meeting agenda around those topics for which further guidance is still required.[21] To the extent possible, it is important to schedule the meeting at such

[20] See Preparing the Project Concept Note.

[21] Questions that task teams usually ask at this stage tend to focus around the consistency of the operation with the CAS/CPS objectives; the adequacy of the proposed instrument to approach the borrower's request for support; the adequacy of the project development statement and expected results; whether there are relevant experiences that could help in the design of the operation; the adequacy of the proposed implementation arrangements; lessons learned from analytical work, previous operations, partners' activities, or private sector-financed operations; and technical discussion regarding the complexity of project activities.

time to maximize attendance by the key staff from whom advice is being requested; face-to-face participation allows for a more fruitful and dynamic dialogue.

30. **Carrying out the concept review meeting.** After the AIS, the concept review meeting is the second point where decisions are made during the preparation phase.[22] During this meeting, which is chaired by the country director, the participants discuss the proposed project's strategic rationale and consistency with the CAS, the objectives and expected results, the main design features, possible safeguard issues, the type of economic assessments required and methodology to carry them out, and key risks. This is the time for also providing feedback to the team on the specific areas for which guidance was requested.

31. Based on advice received from the different participants during the discussions, the following key decisions are made by the country director: (a) whether or not project preparation should follow; (b) which safeguard policies should be triggered and the environment category; (c) what is the economic analysis scope and methodology;[23] (d) what is the project risk rating; (e) what is the processing track to be followed;[24] (f) what is the budget allocation and team composition; and (g) what is the preparation schedule.

32. If a request from the borrower for a preparation advance is envisaged, the task team would normally request some feedback at this stage as to whether such proposal should be prepared, and ask the country director to agree in principle to the preparation of the required documentation.

B. Concept to Appraisal

33. Once the decision is made to allow the team to proceed with preparation, resources are mobilized to initiate project preparation building on the work carried out during project identification.

34. **Borrower's efforts at this stage concentrate toward providing the definitions and inputs required to fine-tune project design and to facilitate the Bank's appraisal of the operation.** During this stage the borrower carries out the bulk of the work needed to arrive to a final project design including (a) fine-tuning the PDOs and expected results and elaborating the proposed results framework and monitoring and evaluation (M&E);[25] (b) analyzing project design alternatives; (c) identifying project activities and organizing them around specific project components; (d) carrying out the various project preparatory and feasibility studies (technical designs, economic analysis, environmental and social studies), including required environmental and social consultations following Bank guidelines and procedures; (e) formulating budget

[22] Typically, there is a threshold amount for project preparation after which the team has to produce a concept note and hold a concept review meeting.
[23] For further guidance on this subject, refer to Economic Analysis Guidance Note.
[24] Typically, low-risk projects are processed following an express track (Track 1) with fewer control points and simplified documentation. Track 2 operations would require a decision point at appraisal either at the Regional or at the corporate level. For additional guidance on this subject, refer to Operational Risk Assessment Framework Guidance Note.
[25] For additional guidance on this subject, refer to Results Framework and M&E Guidance Note.

estimates for key activities; (f) defining the project implementation arrangements; (g) preparing an initial procurement plan; (h) conducting other preparatory activities (preparing a project operation manual,[26] drafting terms of reference for consultant services required during implementation, drafting bidding documents and technical specifications for works, etc.); (i) firming up collaboration for project financing, including co-financing arrangements with other partners or stakeholders if needed; and (j) selecting the financing terms.

35. **Depending on the borrower's and other development partner's capacity, the Bank can play a more active role in some areas to support project design.** The Bank's main roles during this stage are threefold:

- Support the borrower in the design of the operation (i) to increase the likelihood for the proposed operation to meet its development objectives, (ii) to assess the risks to the development objectives and propose mitigation measures as possible, and (iii) to ensure the proposed project will be implemented in compliance with relevant Bank policies/procedures;
- Appraise the project; and
- Draft the necessary project documents and legal agreements to reflect the final project design.

36. Depending of the specific capacity of the borrower, the task team may be called on to carry out a variety of relevant tasks to fulfill the above roles, but the tasks would normally include the following:

- ***Identifying opportunities to bring value added to the borrower's design of the project.*** In general, the Bank's value added would come from sharing its global and technical knowledge to improve the project design proposed by the borrower in the different project areas, which ultimately lead to increased cost-efficiency gains and sustainability of the project results. For instance, borrowers may rely on the Bank's expertise to (a) improve their project management capacities; (b) improve or define a results framework for their programs; (c) carry out risk analysis; (d) identify renowned experts for projects supporting activities that are of a complex nature to share their knowledge on how to address the project's complexities and/or review technical specifications; (e) share knowledge based on international experience and help adapt international good practice to improve the borrower's way of doing business; (f) define the type of activities/contracts/transactions/events/reviews that the project will deal with to achieve such results; (g) introduce innovative contractual procedures that increase cost-efficiency in the sector; (e) receive assistance on specialized or cutting-edge areas; (f) review budget estimates and costs to compare them with international benchmarks; (g) receive advice on how to implement policy or regulatory reforms; (h) identify gaps and capacity-building

[26] Although not a mandatory requirement many borrowers found it to be a useful tool to guide project implementation as it consolidates/summarizes all documents key to project implementation (PAD, legal agreement, disbursement letter, key safeguard documents, relevant guidelines such as those to be used for procurement, templates of TOR's to be used for the financial audits, templates of reports that would need to be prepared by the borrower including progress reports or withdrawal application templates etc.).

proposals to overcome institutional gaps; (i) engage in sector dialogues that lead to further improving the capacity and efficiency of the sector(s) supported by the project; (j) define the scope and structure of any technical assistance component needed; and (k) design the financing plan, convening other development partners assistance if needed.

- ***Supporting the borrower in refining the proposed project components.*** Different approaches can be used to design project components. Some projects may simply follow an activity-focused approach to organize project components along specific type of activities (i.e., rehabilitation works component, technical assistance component, provision of goods component, etc.); others may follow a more sophisticated themed-focused approach with different type of activities supporting each component (i.e., road safety component involving activities to improve institutional road safety management capacity, safety of roads, vehicle safety, responsiveness to accidents, awareness, etc.). In some cases, components may be organized around those financing the project so as to accommodate the different requirements/limitations they may have since some development partners involved in project financing may only be allowed to finance certain specific activities. Regardless of the approach, project components need to be designed along the intermediate results expected from the project, maintaining the hierarchy of cause–and-effect linkages between activities and expected outcomes.

- ***Supporting the borrower to identify the potential relevance of gender in project design.*** Addressing gender disparities and inequalities that are barriers to development and poverty reduction is central to the Bank's work. Assisting borrowers in formulating and implementing their projects so as to integrate the gender dimension whenever possible is one of the areas where the Bank can provide value added to the borrower. Starting at project identification, the team supports the borrower in screening the project to identify and analyze gender issues relevant to the project and discuss whether project design could be gender informed. Sources of information that may help guide the process include existing country/regional gender diagnostics, project-specific analysis to be carried out if necessary, consultations on the project objectives or components that pertain to women and girls, men and boys, and/or gender-related NGOs. When possible, gender-informed project design would (a) show how interventions are expected to narrow existing disparities; (b) include specific or targeted actions that address the needs and constraints of women, girls, men, or boys; (c) include actions to offset risks of adverse gender impacts; (d) propose the collection of gender indicator(s); and (e) include an evaluation strategy that analyzes the gender-specific impacts of the project.[27]

- ***Supporting the borrower to mainstream governance in project design to improve the development impact and integrity of Bank-funded projects.*** A key risk not to overlook is the risk of inefficiencies due to governance issues that could affect the performance of the project and its development effectiveness. Good practice and specific considerations to support a smart project design include (a) focusing project design on measures that will help to achieve development objectives by overcoming any identified governance risks

[27] For additional guidance, refer to Integrating Gender into IL Operations (Good Practice Note).

and vulnerabilities; (b) strengthening internal controls and accountability mechanisms (procurement, financial management, monitoring and evaluation, and information disclosure); (c) strengthening participation and external accountability mechanisms, including (where appropriate) the participation of project beneficiaries and affected communities in project design and implementation, and strengthening their "voice" in order to enhance the responsiveness of service providers; (d) ensuring effective project oversight and supervision through careful project design, engagement (as appropriate) of independent "third party" oversight, and identifying and funding the Bank's task team requirements; and (e) implementing a thoroughly thought-out communications plan designed to send a consistent message to all players and to avoid surprises down the road. Where governance is poor and corruption risks are high, it may be appropriate (in some cases, necessary) to develop a more formal, project-specific Anti-Corruption Action Plan.[28]

- ***Supporting the borrower to strengthen or establish an adequate M&E system for their programs and project reporting requirements to focus effectively on results during project implementation***. The M&E system as well as the reporting arrangements will provide much of the information needed during project implementation to assess progress and performance. As such, during project preparation the task teams pay special attention that the formulation of the results framework is tailored to the scale and scope of the operation.[29] In doing so, task teams would work closely with the borrower to rely on the M&E systems already in place and strengthen them when required.

- ***Supporting the borrower to optimize project design eliminating, to the extent possible, unnecessary sources of risk during implementation***. As preparation proceeds and new information becomes available, reassessing the key risks to PDO is an essential task that could lead to adjusting the project design and to incorporating into the project design risk mitigation measures that will increase the likelihood of the project's success. This assessment will help in identifying key activities to be carried out during project implementation to manage the risks that need to be adequately reflected in the project documents. Particularly, the team may consider whether some of those activities by the borrower may need to be reflected in the legal agreement (if essential for achieving expected results) and/or used to shape the project implementation support plan.[30]

- ***Identifying the minimum information requirements to be covered in the periodic project progress reports to be submitted by the borrower during the implementation period***. Due consideration is needed to decide how to assess and report on (a) progress toward achieving PDOs and intermediate results; (b) risks and the adequacy of the risk management measurements; (c) use of funds (including interim financial reports and

[28] For additional guidance, refer to Dealing With Governance and Corruption Risks in Project Lending Emerging Good Practices (OPCS and GAC, February 2009).

[29] Results framework entails identification of expected results, selection of outputs and outcomes indicators, gathering of baseline data on outputs and outcomes, setting milestones and a timeline for progress, establishing a system for collecting, analyzing, and reporting data, assessing the quality of inputs, establishing a framework for using M&E findings, etc.

[30] For additional guidance on the Implementation Support Plan, refer to Implementation Support Guidance Note.

audits) required for effective project monitoring, evaluation, and disclosure. Task teams discuss with the borrower in particular the outlines, content, and format of said reports and identify the most relevant supporting data that will be required associated with the reported progress, using the borrower's system to generate the information needed as much as possible.

- ***Assisting borrowers to finalize preparatory activities and documents that constitute key tools for implementation and which will facilitate a quick project start***. As part of project preparation the task team strives to provide assistance to the borrower to complete all relevant steps, activities, and/or documents essential for project implementation such as the Operational Manual, the Procurement Plan, the Project Implementation Plan,[31] or any other similar document that outline in detail the project activities to be carried out and the implementation actions required. In addition the team provides support to the borrower in the early preparation of bidding documents, technical specifications, designs, terms of reference, and documents alike; and in some cases, even encourage initiating bidding processes for the first batch of procurement activities, such that project implementation starts soon after project effectiveness. In some cases, borrowers may even want to facilitate project implementation by signing procurement contracts before the expected Bank loan is approved and signed. The Bank may provide retroactive financing in such cases if the activities to be financed are directly related to the PDO, included in the project description and payments for items procured are in accordance with applicable Bank procurement procedures.[32]

- ***Following progress on the borrower's preparation process.*** Task teams are usually better prepared to anticipate any major issues or problems that could delay project preparation and identify possible actions to address such issues when they have a clear understanding of the borrower's internal processes required to move ahead with the preparation, approval, signing, and implementation of a Bank-financed operation (for instance, some countries may need to authorize negotiations in government sessions; task teams need to be aware of such processes to plan accordingly and anticipate any delays that may arise because of that, before scheduling the negotiation date).

[31] While Project Implementation Plans are no longer mandatory in Bank projects, in some projects it may be useful for task teams to work with the implementing agencies in preparing a detailed time-bound blueprint of project activities and their implementation arrangements—whether such a document is referred to as a Project Implementation Plan, Project Implementation Manual, or some other name. The existence of such a detailed document greatly facilitates tracking project implementation, both by the implementing agencies and the Bank. PADs are of necessity too succinct to serve as a detailed guide to project implementation.

[32] Retroactive financing is permitted under the following conditions: (a) the activities financed by retroactive financing are related to the PDO and are included in the project description; (b) the payments are for items procured in accordance with applicable Bank procurement procedures; (c) the total amount of retroactive financing is 20 percent or less of the IPF amount (40 percent for projects in situations in which the borrower is deemed by the Bank to be in urgent need of assistance because of natural or man-made disaster or conflict or experiences capacity constraints because of fragility or specific vulnerabilities); and (d) the payments were made by the borrower not more than 12 months before the expected date of IPF legal agreement signing. The date after which payments may be made is agreed at appraisal, confirmed during negotiations, and recorded in the Loan Agreement. Proposals for retroactive financing are spelled out in the Project Appraisal Document.

- ***Planning for implementation support.*** Implementation support is an integral part of project design, not an afterthought. Planning for implementation support begins during project preparation to (a) better integrate thinking on implementation demands based on project-specific needs and risk profile, (b) obtain management commitment and support for adequate focus on implementation, and (c) give greater attention to expected results and how to achieve them. An overall plan summarizing the key areas on which Bank's support will focus during project implementation is developed and agreed upon with the borrower, with focus on the critical risks to achieving the project results and how those risks can be managed (monitored or addressed) during project implementation.[33]

- ***Informing Bank's Management and drafting key project documents***. During project preparation it is important to keep Bank Management well informed about progress being made and any issues or impediments that are being faced. Whether presenting Management the statement of objectives for a proposed visit to the borrower to support project preparation, the outcome of such a visit, or the PCN or PAD,[34] the task team should keep in mind the following guiding principles to facilitate communications and decision-making: (a) clearly indicate the purpose of the communication/report being submitted, the facts, and the expected outcome from Management once such report is discussed; (b) be concise and to the point; (c) be candid, open, and forthcoming (tell the story as it is, not as others might want it told); (d) work on the storyline being presented (documents submitted for decision-making such as PCN and PAD need to ensure relevant information is actually provided to inform the decision); (e) revise consistency within documents (e.g., the risks and risk management measures discussed in different sections and annexes of a PAD and the ORAF Annex) and between documents (e.g., PAD, Legal Agreement, Operational Manual, etc.).

37. **Quality Enhancement Review (QER).** Depending on the circumstances, some projects may benefit from organizing an informal review meeting to candidly seek independent advice from relevant experts on issues where the team feels there is a need for guidance to improve the quality of the project design. The intent of the QER meeting is to discuss technical and/or design issues that would benefit from the knowledge and collective learning from across the Bank, especially from the relevant networks and/or external reviewers as required. If a decision is made to hold such a review, it would take place typically when the project design is sufficiently advanced but prior to the decision to appraise the project, such that recommendations from said review can be implemented. Normally, the sector manager would facilitate the QER process, involving the Network or Sector Board to identify suitable experts who could contribute to the discussion. Possible issues for discussion include:

- Verifying that project design is consistent with approved PCN and, if not, seeking agreement from country director on major deviations in a timely manner;

[33] For additional guidance on this subject, refer to Implementation Support Guidance Note.

[34] During this stage, the PAD is drafted, succinctly reflecting all the project details resulting from the preparation process. The team leader prepares the PAD with inputs from the different team specialists. Team leaders exercise judgment on the amount of detail and the range of topics to be included in the PAD. The team leader discusses with the country lawyer to draft the project legal documents in coordination with the disbursement officer.

- Obtaining advice on global best practices;
- Providing definitive closure for all major design, fiduciary, and safeguard issues needed to complete appraisal;
- Agreeing on final safeguards rating and requirements for appraisal;
- Updating project processing timetable and estimate of resources needed to complete preparation, and seeking agreement by country director if needed;
- Initiating preparation of draft Legal Agreements.

38. **Preparing for and carrying out the Decision Review.** Projects following a regular processing track (Track 2) have an additional decision point, which is the Decision Review meeting. The objective of the Decision Review is to assess progress in project preparation (taking into account the Concept Review decisions) and decide whether project design and assessments are sufficiently advanced to allow for project appraisal/negotiations. Such decision is based on (a) overall project storyline, (b) project results framework, (c) the findings of assessments undertaken, (d) proposal to make assessments' key recommendations actionable, and (e) proposed Implementation Support Plan. Projects that are following the expedited track (Track 1) do not have this decision meeting; in these cases teams make a self-assessment to decide whether they are ready to appraise the project, taking into consideration the above-mentioned decision factors. Some useful guiding questions to assess a project's readiness for appraisal are provided in Annex A.

39. Task teams prepare for the Decision Review meeting following the same principles discussed before for the Concept Decision meeting, in terms of setting a list of topics for which advice is required, selection of peer reviewers, preparing the meeting's agenda, etc. Along with the PAD, the draft Legal Agreement is circulated for review. The drafting process of the Legal Agreement at this point in time is helpful to ensure that the scope of the operation, the covenants, disbursements, and audit processes are clearly defined. The country director normally chairs the Decision Review meeting. However, some Decision Review meetings involve a corporate-level (ROC or OC) review.[35] In those cases, specific additional steps need to be taken in organizing the Decision Review.[36]

40. **Project appraisal**. Project appraisal is the final stage where all the assessments come together under a consolidated project proposal. The task team confirms the proposed project is well designed and in compliance with Bank policies and procedures, and identifies required actions to increase the likelihood that PDOs can be realistically achieved. In particular the task team looks into whether the PDOs are clear and realistic in their scope and timeframe, and within the implementation capacity in place. Appraisal provides a comprehensive review of all aspects of the project and lays the foundation for its implementation and evaluation when completed. Based on the information provided by the borrower in the different preparatory studies and assessments conducted, the task team carries out its own assessment of the project, reviewing in particular in the following areas:

[35] Refer to "Guidelines and Procedures for Corporate Review of Operations and Country Strategies".
[36] Refer to Track 2 Instructions.

- ***Technical assessment.*** Looking into the soundness of the project design, its consistency with relevant international standards, its appropriateness taking into account the borrower's capacity and needs, the robustness of cost estimates, and the realism of implementation schedule.

- ***Economic/financial analysis.*** Confirm the economic feasibility and rationale of the project as presented by the borrower.[37] When needed, the team also assesses the financial soundness of the project, particularly when the project involves revenue-earning entities (e.g., a public railway company under a railway line construction project, a water company under a water service provision project). The objective of the evaluation is to ensure that the revenue-earning entity is sufficiently sound financially to undertake the project and to ensure the entity's and project results' sustainability in the future (e.g., the operation and maintenance of the infrastructure built).

- ***Institutional capacity and implementation arrangements.*** Establish whether the proposed arrangements are likely to support an efficient project implementation and/or identify key weaknesses, which can be addressed during project preparation and implementation. These assessments would normally look into the organizational, governance, managerial, administrative, M&E, and legal frameworks governing the sector in which the project will take place and in particular those of the implementing agency(ies). Depending on the nature of the project, the assessments could be limited to certain aspects of the agency's operations, address a broad range of institutional issues of an agency or group of agencies, or discuss issues related to sectoral or subsectoral organizational structures.[38]

- ***Financial management assessment.*** Determine the adequacy of the ,FM arrangements proposed at the implementing agency/ies level. Based on the project's requirements in terms of flow of funds, reporting and external auditing, task teams look into the agency/ies budgeting, accounting, internal controls, funds flow, financial reporting, and auditing arrangements to determine whether they (a) are capable of recording correctly and completely all transactions and balances relating to the project; (b) are able to facilitate the preparation of regular, timely, and reliable financial statements; (c) can safeguard the project's assets; and (d) are subject to auditing arrangements acceptable to the Bank.[39]

- ***Procurement assessment.*** Determine the adequacy of the procurement arrangements in terms of the capacity of the implementing agency(ies) to manage procurement

[37] For detailed guidance, refer to Economic Analysis Guidance Note.
[38] It is important to remain realistic/pragmatic in terms of how much can be achieved through a project in terms of addressing institutional capacity weaknesses. Some weaknesses may simply be out of reach from the context of a specific operation (e.g., if procurement of civil works contracts is very slow in a sector, and to increase significantly the speed requires a change in the national law, then the project will most likely have to live with a very slow procurement process. In such cases possibly the civil works targets of the project may need to be adjusted accordingly).
[39] For detailed guidance, refer to Financial Management Guidance Note [forthcoming].

activities during project implementation in a timely and cost-efficient way and in accordance with Bank procurement guidelines. Based on the project procurement needs (project activities that require procurement, timing, costs, etc.), the team (a) analyzes whether the implementing agency(ies) has adequate systems, processes, and resources to procure such activities efficiently; (b) identifies key weaknesses and proposes actions to address such weaknesses during project preparation and implementation; and (c) proposes oversight and monitoring arrangements to assess progress, including a confirmation that an acceptable procurement plan covering the first 18 months of project implementation is available.

- ***Social and environmental assessment.*** (a) Determine the project's potential impact (positive and negative) on the environment and society; (b) confirm the adequacy of the implementation arrangements (systems, capacity, resources, etc.) to identify and manage environmental and social issues during implementation in accordance with relevant Bank policies; (c) identify key weaknesses and propose actions to address such weaknesses during project preparation and implementation; (d) confirm that appropriate environmental management plans (IPDP, IPDF, resettlement frameworks, etc.) have been prepared, public consultations have been held, and information made available; and (e) confirm that appropriate grievance-handling procedures and arrangements for monitoring the implementation of the specific management plans are in place, as appropriate.

- ***Risk assessment.*** Using the inputs from the above assessments, task teams re-assess the project's risks and discuss with the borrower any necessary adjustments to the project design to manage the key risks and updates the project's risk assessment using the ORAF tool.[40]

- ***Readiness for implementation*****.** Lack of readiness to implement a project often constitutes a major constraint to achieving development objectives and to the effectiveness of the operation. Checking project readiness for implementation will help avoid unanticipated delays between Board approval and effectiveness; unforeseen lags in implementation and disbursements; difficult and costly implementation support efforts geared toward correcting design-related issues; and unnecessary burdens in the relationships between the Bank and the borrower. For this reason during project preparation, tasks teams assess whether a project is ready to be implemented or not. Toward this decision, the team can refer to the following checklist to determine the extent to which a project is ready:[41]

  ✓ Implementation agencies are in place, staffed, trained and operational.

[40] For additional guidance on this subject, refer to Operational Risk Assessment Framework Guidance Note.

[41] Each Region has their own set of readiness checklists which need to be followed by staff working in those regions. However, the Bank is undergoing a harmonization exercise which may lead to the development of one set of corporate readiness filters to be followed across the Bank in the future.

- ✓ Procurement and FM arrangements are in place with (as necessary) agreed manuals of procedures, recommendations from capacity assessment implemented and or taken into consideration for project design and costs, procurement plan ready, audit arrangements agreed, etc.
- ✓ M&E systems are in place with baseline data, agreed indicators, and specified data collection strategy.
- ✓ Project Implementation Support Plan for the first year has been agreed upon.[42]
- ✓ Counterpart funds for first year of implementation are allocated.
- ✓ Impacts on environment and society as well as proposed management/mitigation measures have been clearly identified, with key assessments and plans disclosed.
- ✓ Key procurement, FM, and safeguards assessment recommendations have been taken into consideration in the project design and costs.
- ✓ Key contracts for activities during first year of project implementation have been brought to point of signature.
- ✓ Conditions for loan effectiveness have been minimized (having several effectiveness conditions is an indication that the project is not ready for implementation).
- ✓ Key risks to project's development objectives have been identified and, as feasible, risk mitigation measures proposed.

C. Negotiations through Approval

41. **Preparing the negotiation package and getting ready for negotiations.** Once the appraisal has concluded, the team finalizes the project documents (PAD, Legal Agreement, subsidiary, project and/or guarantee agreements if any,[43] procurement plan, disbursement letter, etc.) that will constitute the negotiation package to be sent to the borrower in advance of the negotiations. It is important to work closely with the country lawyer to ensure that relevant aspects for project implementation reflected in the PAD are also well captured in the Legal Agreement, particularly key aspects to the success of the projects that would need to be reflected as covenants in the Legal Agreement or specific conditions to be fulfilled by the borrower at specific points in time.

42. The team discusses with the borrower the proposed date to conduct negotiations, taking into account the internal processes required by the borrower and the Bank to have a formal authorization to negotiate. The team must bear in mind that different countries have different requirements and sometimes this internal process may be time-consuming, requiring close coordination to ensure that both parties are ready at the agreed date. In setting the date, the team

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[42] For additional guidance on the Implementation Support Plan, refer to Implementation Support Guidance Note.

[43] If the implementing agency is not entitled under national legislation to contract foreign borrowing from the Bank or is not sufficiently creditworthy, the Government will generally be the borrower and may re-lend the loan proceeds to the implementing agency on terms agreed with the Bank; in such cases a subsidiary agreement will be required. If the implementing agency is entitled under national legislation to contract foreign borrowing from the Bank, said agency may be designated as the borrower and be directly responsible for loan repayments to the Bank. In most such cases, the Bank may require a guarantor, usually the Government, to guarantee loan repayment.

must consider that the borrower needs to have an opportunity to review the draft documents to be discussed during negotiations.

43. Well in advance of the negotiation date, the team leader informs key team members who are required to attend to assure their availability to participate. Normally, on the Bank's side, the team leader conducts the negotiations with the country lawyer and with the participation of other key team members who cover specific topics (procurement, financial management, finance, etc.).

44. The borrower's delegation usually comprises several representatives of the borrower's entities as identified under the draft Legal Agreement. These entities usually include the Ministry of Finance or Planning, the sector ministry, the Public Attorney's Office, and the project's implementing agency. A high-level representative of the Ministry of Finance or Planning will usually head the delegation.

45. Teams normally look into the following aspects to assess whether the project is ready for negotiations:

- The Appraisal Completion Note has been cleared.
- The borrower has confirmed to the team that it is ready to negotiate.
- All issues related to project design, scope, implementation arrangements, and evaluations have been resolved.
- Agreement has been reached between the team and the borrower on the main points of the PAD.
- The team and the borrower have agreed on the draft Disbursement Letter, Procurement Plan, Project Implementation Manual, and General Procurement Notice.
- The project's Legal Agreements have been fully drafted.
- The borrower has achieved good progress in setting up the agreed-upon implementation arrangements and in executing the preparatory activities.

46. **Authorization to negotiate**. Bank Management will review the conclusions of project appraisal to determine whether the project's Legal Agreement is ready to be negotiated. Such decision is based on (a) a review of key project changes since Decision Review, and of inclusion of the Decision Review's conclusions (for Track 2 projects); and (b) review of draft PAD and draft Legal Agreement.

47. Once the negotiation package is ready and the decision to go ahead with negotiations has been received, the team sends a letter of invitation to the borrower to negotiate on the agreed date, indicating the location where negotiations will take place,[44] the documents that will be discussed during negotiations (normally the PAD, legal agreement, disbursement letter, procurement plan), and attaching said documents that constitute the official negotiations package. The Bank also informs the borrower about the Bank's Access to Information Policy,

[44] Negotiations can be conducted either at the Bank Headquarters in Washington, D.C. or in the borrower's country. Sometimes negotiations may also take place virtually, especially when it comes to simple legal agreements, say for example for repeater projects when there is a long-standing relationship with the borrower.

asking the borrower's negotiating delegation to be authorized to identify during negotiations any text or data in the PAD that may be confidential or sensitive. For negotiations in countries where the official language is not English, the Bank may arrange for translation of the draft negotiation documents into the relevant language.

48. **Negotiations**. The objective of negotiations is to formalize the agreed understandings on the use of Bank financing as discussed during project preparation as reflected in the PAD and to reach an agreement with the borrower with all terms and conditions of the Legal Agreement. During negotiations both delegations go over the draft Legal Agreements, reviewing it section by section to agree on its content. The Bank explains the legal framework (Articles of Agreement, General Conditions, etc.) that accompanies the Legal Agreement and the structure of the Legal Agreement itself, going over its details (covenants, conditions, etc.) and explaining the conditions that need to be met (if any) before the Bank can declare the Agreement effective, the procedures for withdrawal, and disbursement of Bank funds. The Bank would normally ask the borrower for their comments on the PAD and go into its detailed review if there are paragraphs that may need rewording before the PAD is publicly disclosed. The Bank asks the borrower's delegation to indicate (a) any confidential or sensitive text or data in the PAD that may adversely affect the relations between the Bank and the borrower if released to the public; and (b) whether the borrower agrees to make the document public at the same time as the document is submitted to the Board for consideration (simultaneous disclosure).[45] The delegation would be asked to clear changes to the wording of the PAD that may resolve any problems related to its release.[46] The delegations also go over the Disbursement Letter and the financial terms of the loan/credit.

49. Once the delegations have gone through the different documents and if there are no issues unresolved, the team leader in consultation with the country lawyer drafts the Minutes of Negotiations, which is a succinct summary of the key aspects of negotiations. The Minutes are not a legally binding document. Relevant commitments from the borrower achieved during negotiations are reflected as necessary in the draft Legal Agreements. Once reviewed by the borrower, negotiations are concluded with the signing of the Minutes on both sides.

50. If an issue brought to the negotiations, creating a major obstacle to successfully concluding negotiations, and cannot be resolved by the borrower and Bank delegations, Bank Management intervention may be required (e.g., the borrower and the Bank delegations do not agree on one activity to be financed under the project, or the borrower's delegation questions a key Bank principle such as the application of Bank's procurement procedures, or a major design change is proposed that will require a re-appraisal). The team leader acts proactively by identifying the issue and informing Bank Management. The team leader, with support from the lawyer, consults with the sector manager and the country director on the opportunity to (a)

[45] Refer to Preparing the PAD for text to be used in cover of PAD for disclosure: (a) after Board or (b) prior to Board consideration.

[46] The team leader may make adjustments to the document to address any matters of concern, as considered appropriate. When an otherwise disclosable PAD contains limited and clearly identifiable information that falls under one or more of the exceptions provided in the policy and this information is material to the Board decision, the information is removed from the document and conveyed to the Board in the Memorandum of the President (MOP). Otherwise, such restricted information should be removed from the PAD/PD. Note that MOPs are declassified and disclosed after 20 years (unless they contain information that may not be declassified).

conditionally conclude negotiations, documenting in the Minutes of Negotiations the pending issue and the conditions under which it would be considered resolved (once the pending issue is resolved, an addendum to the Minutes of Negotiations would be issued); or (b) break negotiations, summarizing their current status and agreeing to restart discussions when a satisfactory resolution of the issue is found.

51. Following are considerations to help in conducting negotiations to avoid lengthy and unproductive discussions:

- ***Preparing for negotiations***. Involve the country lawyer early in project preparation to allow them a better understanding of key issues; discuss candidly and transparently all aspects of project preparation and the relationship with counterparts with the country lawyer. Discuss the borrower interests, positions, possible deal breakers or bottom lines, and alternatives to deal with those. The Bank team should present a united position; agree in advance how to react during negotiations if there is disagreement among team members (leaving the room to discuss privately, etc.). Discuss what is in the delegation's authority or realm of responsibility before negotiations start.

- ***During negotiations***. Set and keep a positive environment. Be collaborative while being firm as needed. Go to the point (the big picture) and avoid having lengthy discussions on small details. When needed, ask questions to clarify or uncover what is at stake. Listen carefully to make sure what is being said and what is really at stake are the same thing. Look for areas of agreement. Keep reminding both sides of common ground already achieved. Make effective statements and proposals. Ask effective questions – aim to really understand, don't interrogate. Use facts and examples from relevant experience to base the arguments. Think about the sensitivity of certain items (fraud and corruption) and allow the borrower to save face. Understand and respond to conflict. Don't take issues personally. Avoid being confrontational. Use the Minutes of Negotiations to record any concerns that cannot be addressed in the Legal Agreements. When in doubt on a specific decision, revert to Bank Management for advice.

52. **Key tasks after negotiations are completed.** After negotiations are successfully completed, the task team will do the following:

- ***Inform Bank Board and Management that negotiations have been completed.***

- ***Start preparing the Board package revising the consistency between documents***. At this point it is important for the team to take time to revise the different documents (PAD, Legal Agreements, guarantee/subsidiary agreements, operational memorandum (if there is one), procurement plan, etc.) and ensure consistency within the documents (e.g., between main text of PAD and annexes) as well as across the documents (especially between the PAD and the Legal Agreements) since during appraisal/negotiations some adjustments may have been agreed upon. The team leader revises the front cover of the PAD to include the appropriate wording for PAD disclosure after or prior to Board approval, reflecting what was agreed with the borrower during negotiations. The team leader prepares the Board package and follows the instructions/steps to submitting the package for approval.[47]

- ***Prepares for the Board meeting.*** The team leader may receive questions on the project documents from Executive Directors' advisors, usually through Executive Directors' Written Statements. Following consultations with the country director, sector manager, and relevant specialists (e.g., country lawyer, safeguards or procurement specialists), the team leader proposes answers through a Staff Written Statement.

- ***Updates the project file.*** All relevant documents that served as a basis for preparation are filed in the project's file (WBdocs).

53. **Approval**. Under a principle-based approach, Bank Management exercises judgment in determining which operations are submitted for full Board discussion, based on the following principles:

- ***Risks to development objectives****:* Full Board discussion would be considered for projects that have high risks to achieving development objectives.

- ***Learning and innovation*** Full Board discussion would be considered when an operation is assessed to have exceptionally innovative features in its design or content (and therefore is rich in learning potential). Full Board discussion may be appropriate for the first few applications of new operational policy instruments/options or operational policy options that are infrequently used.

- ***Exceptions to Bank policy.*** Full Board discussion would be considered when an operation involves an unprecedented or potentially controversial waiver to Bank policy.

54. In addition, Bank Management would consider full Board discussion, for any other project if it deems the project of interest to the Board from a strategic, policy, or learning perspective. However, most projects requiring approval are submitted to the Board for approval on an absence-of-objection basis without a physical meeting of the Board. Following delegation by the Board, some projects require only Regional Vice Presidents approval. These usually include projects financed from recipient-executed trust funds.

55. **Memorandum of President**. To facilitate the decision-making by the Board, a Memorandum of President accompanies the PAD. The MOP is to be used as an executive

[47] For detailed information on the steps and additional guidance go to: Track 2 Instructions and Negotiations to Effectiveness e-learning module.

summary for decision-makers and outlines (a) the project terms and financing arrangements; (b) the PDO; (c) the strategic context; (d) key issues for Board information and approval, including key risks (any serious governance concerns and relevant investigations by the Department of Institutional Integrity [INT]);[48] (e) confidential information that is not included in the PAD; and (f) any policy waiver.[49]

[48] The Regional OS Director (who is the primary point of contact for INT) would inform the task team no later than the Decision Review if there is a closed or ongoing high-priority INT case associated with the project or the project implementing agency. When there is a closed INT case for which a summary has been disclosed to the public and which is relevant to the project submitted to the Board, it would be referred in the main text of the PAD. When there is a closed INT case or an ongoing high-priority INT investigation, which has been disclosed to Regional Management (normally the OS Director) but not to the public, the case would be referred in the MOP and INT would clear the language to be used.

[49] For detailed guidance on the MOP, refer to Interim Guidance on Board Documents for Approval of Investment Operations (Sep 2008)

Annex A. Assessing Readiness for Appraisal

Annex A presents guidance questions to assess whether a project is ready for appraisal.

HOW DO YOU KNOW IF A PROJECT IS READY FOR APPRAISAL?

#	Area	Specific Actions and Documents	Check Y/N
1	Strategic content	• Does PAD describe country context and key elements of the sectoral and poverty reduction strategy? • Are relevant key lessons of experience reflected in project approach?	
2	Project Description	• Is the level of complexity and coverage of project activities clearly described? Does the level of project complexity create any risks of sustainability?	
3	PDO, key outcome indicators and M&E arrangements	• Are project development objectives clear and achievable in their scope, timeframe, and existing institutional capacity? • Are the expected outcomes for primary target group specified and realistic? • Are core indicators included as appropriate, and have baseline and targets been established? • Are M&E arrangements agreed and capacity in place?	
4	Project design	• For each component, is the principal target group and main outcomes clearly defined? • For each component, are costs and outputs realistically estimated? • Have alternative designs been considered, and the chosen design justified?	
5	Project implementation arrangements	• Has assessment of implementation capacity been completed, and recommendations taken into account? • Is the draft project operational manual developed and agreed, as appropriate?	
6	Procurement	• Has procurement assessment been completed and are recommendations taken into account? • Is draft procurement plan ready? • Are bidding documents for start-up well advanced?	
7	Financial management	• Has FM assessment been completed and recommendations reflected in project design? • Are the flow of funds and accountabilities for financial reporting established?	
8	Safeguards	• Have key safeguard documents (EIA, RAP, SA, etc.) been prepared and disclosed to public? • Have required consultations been carried out and reflected in project design?	
9	Financing Plan	• Has sufficient project financing been agreed including counterpart funding to cover estimated costs?	
10	Risks and Mitigation	• Are risks identified and rated, and any feasible mitigation measures built into project design?	
11	Legal Aspects	• Can key agreements regarding project implementation be readily formalized into the project's legal agreements?	