Operational Manual

OP 10.00 - Investment Project Financing

These policies were prepared for use by World Bank staff and are not necessarily a complete treatment of the subject.

OP 10.00
April, 2013


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

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

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

Considerations in Investment Project Financing

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

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

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

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

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

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

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

**Special Considerations**

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

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

(a) The fiduciary and environmental and social requirements set out in OP/BP 4.01, OP/BP 4.10, OP/BP 4.11, OP/BP 4.12, BP 10.00, and OP/BP 11.00 that are applicable during the Project preparation phase may be deferred to the Project implementation phase. The environmental and social requirements exception for Category A Projects under OP 4.01 is only applicable to cases referred to in paragraph 11(i) of this OP.

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

(c) Such Projects are subject to special limits on the use of Preparation Advances (see paragraphs 16-17 of this OP) and retroactive financing.

(d) When the beneficiary’s capacity to implement the needed activities is insufficient, the Bank may, at the request of the beneficiary, agree to the following alternative legal and operational Project implementation arrangements: (i) the Bank may enter into arrangements with relevant international agencies, including the United Nations, national agencies, private entities, or other third parties; and (ii) where no viable implementation alternatives exist, the Bank may execute start-up activities financed as a grant from the Project Preparation Facility (see paragraphs 16-17 of this OP) or a trust fund, following applicable internal Bank procurement rules.

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

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

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

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

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

**Preparation Advances**

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

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

**Borrower and Bank Roles and Responsibilities in Investment Project Financing**

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

19. The Bank appraises the proposed Project in accordance with this OP and other applicable policies. During Project implementation, the Bank monitors borrower compliance with the borrower’s obligations as set out in the
Operational Manual - OP 10.00 - Investment Project Financing

legal agreements and provides implementation support to the borrower by reviewing the borrower’s information on Project implementation progress, progress toward achievement of the Project’s development objectives and related results, and updates the risks and related management measures. Implementation support and monitoring carried out by the Bank during the implementation period ends at the completion of the Project.

Managing Investment Project Financing

20. Approval. The Executive Directors decide whether to approve IBRD and IDA Investment Project Financing proposals. Except for IDA grants and trust-fund-financed grants explicitly requiring approval by the Executive Directors, all other grants are approved by Management.

21. Signing. Signing of legal agreements for Investment Project Financing takes place after all required authorizations have been issued; and provided there are no payments on IBRD loans or IDA credits to the borrower, or to or guaranteed by the member country, that are overdue by 30 days or more, unless, in exceptional circumstances, Management approves the signing and reports such information to Executive Directors.

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

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

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

Recourse and Remedies

25. If the borrower does not comply with its contractual obligations, or other events occur which give rise to a legal remedy under the loan agreement for the Investment Project Financing, the Bank consults with the borrower, and requires the borrower to take timely and appropriate corrective measures. The Bank’s legal remedies are specified in the relevant legal agreements and include suspension of disbursements of, and cancellation of, withdrawn amounts of the financing. The Bank exercises such remedies when warranted and as it deems appropriate, taking into account, among other things, country-, sector-, and investment-specific circumstances, the extent of possible harm caused by circumstances giving rise to the remedy, and borrower’s commitment and actions to address the identified problems. However, the Bank takes a graduated approach to suspension for non-payment, and when an IBRD loan or IDA credit payment from the borrower to the Bank is overdue by 60 days, the Bank suspends all financings to or guaranteed by the country concerned.

Additional Financing

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

**Disclosure of Information**

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

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

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