United States Position on Investment Lending Reform (ILR) Policy

October 25, 2012

Investment Lending Reform is an important part of the Bank's modernization agenda and the United States broadly welcomes the proposal that Management has put forward for discussion today. The United States supports the objectives outlined in the paper, including the appropriate streamlining of processes both to make the World Bank Group better able to support clients in achieving results and to support clearer accountability for policy adherence and more efficient and transparent decision-making. The Investment Lending Reform (ILR) policy addresses the complexities of World Bank policies and procedures which, in many cases, pose challenges to the institution's development effectiveness, noting that these risks were highlighted as a key operational risk in the 2009 IDA Internal Controls Review. Furthermore, the United States supports the linkage between this set of reforms and other ongoing reforms like strengthening the accountability framework at the Bank and the development of the web-based project operations processing portal.

The United States believes that the proposal largely meets these objectives. The United States accepts the contention that the numerous and fragmented Operational Policies and Bank Procedures (OP/BP) that govern Investment Lending are potentially unwieldy, may put an unreasonable burden on staff in many cases, and may even undermine staff's attempts to comply with Bank policy and procedure. Consolidation of the 19 Operational Policies and 18 Bank Procedures into a new OP/BP is a logical way to address this problem, and should strengthen compliance, particularly once related processing steps are hard-wired into the web-based project processing portal. The United States would like to regularly monitor the proposal's success in addressing these deficiencies, and look forward to hearing updates on progress made and whether the overall Investment Lending Reform lives up to expectations. The United States is pleased that Management is providing training to help staff understand these changes and improve operations. The United States also understands that procurement and safeguards reforms are on separate tracks, and that once those policy reviews have been completed, consideration will be given to inter-linkages and integrating them, as appropriate, into the single IL OP and BP.

The United States agrees that a greater focus on implementation support is a critical step in shifting the Bank's culture of approval to one that is focused on results and helping clients find solutions during implementation. The United States expects that the transfer of material included in current OPs and BPs into processing instructions and guidance notes will be balanced with strengthened accountability and oversight to ensure compliance. Many Inspection Panel cases have found weaknesses in the quality of supervision, particularly in the implementation stage of the project cycle. The United States looks forward to continued strategic engagement with Management on ways in which to further support a shift towards a culture of results and implementation.

The United States also appreciates Management's efforts on economic analysis for investment lending operations. The three key questions that are posed in the Board paper and draft Guidance Note as supplements and guidance to economic analysis are welcome, as is Management's critically important objective of ensuring that these questions are answered earlier in the project cycle. The United States believes that cost-benefit analysis should remain the default for Investment Lending operations, while recognizing that alternative, but still rigorous, methods of analysis may be more appropriate in rare cases. The Guidance Note on Economic Analysis should be clearer in conveying this expectation to staff. We also believe that the Guidance Note could be improved by providing staff with specific examples of when alternative economic analysis models are appropriate. The document rightly points out that "country conditions, from fragility to well-functioning institutions, have implications for the analysis." More specific guidance (perhaps developed with input from the fragile states hub in Nairobi) on the preparation of economic analysis in fragile states would be useful and should be integrated into the Guidance Note.

The United States recognizes that this consolidation is a complex undertaking, and is pleased that Management has taken a number of steps to help address potential implementation challenges. The United States notes Management's assurances that the new OP/BP will not inhibit the Inspection Panel's ability to fulfill its mandate and that there is no change in the policy content of the OP/BP. The United States would appreciate if the language in the staff written statement on the Inspection Panel could be incorporated into a revised version of the Board paper. The United States also appreciates Management's commitment to return to the Board if implementation of this set of reforms reveals any inadvertent substantive policy change.