

FROM: The President

January 13, 2012

**Application of the Additional Financing Policy
to non-Board-approved Recipient-Executed Trust Funds**

1. This memorandum proposes amending the Bank's policy on additional financing¹ to extend its application to all recipient-executed trust funds (RETFs), including those that are not approved by the Board. It requests the Executive Directors' approval of this policy change on an absence-of-objection basis.

Background

2. In engaging with the Board on trust fund reforms, Management committed to integrate RETFs with regular Bank operations². Accordingly, as part of the ongoing consolidation and update of the Bank's Operational Manual, Management will thoroughly review all the operational policies to ensure that they apply equally to RETFs as to IBRD/IDA loans and credits. In the meantime, at the Board meeting of October 25, 2011, Management committed to revise OP 13.20, *Additional Financing for Investment Lending*, to ensure consistency in its application to RETFs and IDA/IBRD operations, and to enable easier and faster processing of additional financing to successful operations, regardless of the source of financing.

Main Issue

3. OP 13.20 defines additional financing for an investment project as including "IBRD loans, IDA credits, IDA grants, and trust fund grants that are approved by the Board and are additional to ongoing loans approved by the Board." Accordingly the policy does not include RETFs that are not approved by the Board. Therefore, for operations originally supported only by non-Board-approved RETFs, and/or for Bank-supported operations in which the source of further financing is proposed to be a non-Board-approved RETF, management approval of further funding takes place outside the framework of OP/BP 13.20. Such funding is processed, approved, accounted for, and documented differently from additional IBRD/IDA financing for ongoing IBRD- and IDA-supported investment operations. Moreover, the processing of additional funding to RETF-supported projects varies widely across the Bank because of the lack of clear procedures.

¹ See OP 13.20, *Additional Financing for Investment Lending*.

² See also OP 14.40, *Trust Funds*, which provides in paragraph 6 that "Activities financed from RETFs are administered under the Operational Policies and Procedures that apply to IBRD and IDA financing; smaller-size grants may be subject to simplified procedures."

Proposed Policy Changes

4. To ensure greater alignment between RETFs and regular IDA/IBRD funding in the use of additional financing, Management requests Board approval of policy changes to extend the application of OP 13.20 to all RETFs. For approval authority for additional financing, the main principle would remain the same as exists currently in respect of the funding source—that is, that if the source of funding is subject to Board approval, then so is the proposed additional financing; but if the source of funding is not approved by the Board, neither is the additional financing³.

5. The proposed policy changes are shown in Annex A, in comparison with the current policy. If the Executive Directors approve these changes, Management will revise OP 13.20 accordingly (see draft OP 13.20, *Additional Financing for Investment Lending*, in Annex B) and issue revised Bank Procedures.

6. **Recommendation.** I recommend that the Executive Directors approve the proposed changes to the Bank’s policy on additional financing described in paragraph 5 of this memorandum and shown in Annex A, to extend applicability of OP 13.20, *Additional Financing for Investment Lending*, to recipient-executed trust funds.

Robert B. Zoellick
President

by Caroline D. Anstey
Managing Director

³ OP 14.40, *Trust Funds*, provides that “the approval process for grants ... is determined by the approved Trust Fund Proposal ... and the legal agreements that govern the trust fund.” (see footnote 9 of the OP). BP 14.40 then clarifies in which situations the Board approves any proposal for a Bank-administered trust fund (see footnote 8 of BP 14.40).

Annex A:
Proposed Policy Revisions to OP 13.20, *Additional Financing for Investment Lending*

<i>Current text in OP 13.20</i>	<i>Revision/amendment provision</i>
<p>Policy Heading:</p> <p>This Operational Policy statement was updated in November 2009 to reflect clarifications discussed in a progress report, <i>Additional Financing: Responding to New Needs</i> (February 2009); and in March 2007 to reflect the issuance of OP/BP 8.00, <i>Rapid Response to Crises and Emergencies</i>.</p> <p>Note: OP and BP 13.20, <i>Additional Financing for Investment Lending</i>, apply to additional loans considered by the Executive Directors on or after June 1, 2005. For technical guidelines...opmanual@worldbank.org.</p>	<p>This Operational Policy statement was updated in <u>January ..?? 2012 to extend its applicability to all recipient executed trust fund (RETF);</u> in November 2009 to reflect clarifications discussed in a progress report, <i>Additional Financing: Responding to New Needs</i> (February 2009); and in March 2007 to reflect the issuance of OP/BP 8.00, <i>Rapid Response to Crises and Emergencies</i>.</p> <p>Note: OP and BP 13.20, <i>Additional Financing for Investment Lending</i>, apply to additional loans considered by the Executive Directors on or after June 1, 2005, <u>and to additional RETF project papers submitted for approval on or after (insert date of approval of policy changes).</u> For technical guidelines ... opmanual@worldbank.org.</p>
<p>Paragraph 3:</p> <p>3. Additional financing is provided as a separate loan and constitutes a new loan commitment. The financial terms and conditions for the additional loan are set in accordance with the provisions of OP 3.10, <i>Financial Terms and Conditions of IBRD Loans, IBRD Hedging Products, and IDA Credits</i>. The loan is subject to approval by the Bank’s Board of Executive Directors.</p>	<p>3. <u>When the source of financing is IBRD or IDA,</u> additional financing is provided as a separate loan and constitutes a new loan commitment. The financial terms and conditions for the additional loan are set in accordance with the provisions of OP 3.10, <i>Financial Terms and Conditions of IBRD Loans, IBRD Hedging Products, and IDA Credits</i>. The loan is subject to approval by the Bank’s Board of Executive Directors. <u>When the source of financing is a trust fund, additional financing also constitutes a new commitment and is approved according to the provisions of OP14.40, <i>Trust Funds</i>.</u>⁴</p>
<p>Footnote 1:</p> <p>¹ Bank” includes IBRD and IDA; “borrower” includes credit and grant recipient; “additional financing” includes IBRD loans, IDA credits, IDA grants, and trust fund grants that are approved by the Board and are additional to ongoing loans approved by the Board; and “project” means the original Board-approved investment project processed under OP/BP 10.00, <i>Investment Lending: Identification to Board Presentation</i>, OP/BP 8.00, <i>Rapid Response to Crises and Emergencies</i>, or OP/BP 14.40, <i>Trust Funds</i>. Upon Board approval of an</p>	<p>¹ “Bank” includes IBRD and IDA; “borrower” includes credit and grant recipient; <u>“loan” includes IBRD loans, IDA credits or grants, and recipient executed trust funds;</u> “additional financing” includes IBRD loans, IDA credits, IDA grants, and <u>recipient executed trust funds grants that are approved by the Board and are additional to ongoing loans approved by the Board;</u> and “project” means the original Board-approved investment project processed under OP/BP 10.00, <i>Investment Lending: Identification to Board Presentation</i>, OP/BP 8.00, <i>Rapid</i></p>

<i>Current text in OP 13.20</i>	<i>Revision/amendment provision</i>
<p>additional loan processed under OP/BP 13.20, <i>Additional Financing</i>, “project” means the original project expanded to include activities financed under the additional loan. The policy and procedures on additional financing do not apply to development policy lending, for which the policy and procedures are set out in OP/BP 8.60, <i>Development Policy Lending</i>.</p>	<p><i>Response to Crises and Emergencies</i>, or OP/BP 14.40, <i>Trust Funds</i>. Upon Board approval of an additional loan processed under OP/BP 13.20, <i>Additional Financing</i>, “project” means the original project expanded to include activities financed under the additional loan. The policy and procedures on additional financing do not apply to development policy lending, for which the policy and procedures are set out in OP/BP 8.60, <i>Development Policy Lending</i>.</p>
<p>New Footnote 4:</p>	<p>⁴ See footnote 9 of OP 14.40, <i>Trust Funds</i>.</p>

Annex B: Draft OP 13.20, Additional Financing for Investment Lending

OP 13.20

January ..2012??

This Operational Policy statement was updated in January ...2012??.. to extend its applicability to all recipient executed trust funds (RETF); in November 2009 to reflect clarifications discussed in a progress report, *Additional Financing: Responding to New Needs* (February 2009); and in March 2007 to reflect the issuance of OP/BP 8.00, *Rapid Response to Crises and Emergencies*.

Note: OP and BP 13.20, *Additional Financing for Investment Lending*, apply to additional loans considered by the Executive Directors on or after June 1, 2005, and to additional RETF project papers submitted for approval on or after... (insert date of approval of policy changes). For technical guidelines to staff on processing additional financing, including an outline for the Project Paper for Additional Loans, staff may refer to “Guidance to Staff on Processing Additional Financing,” available on the OPCS website. Questions on the additional financing policy should be addressed to opmanual@worldbank.org.

1. The Bank⁴ may provide additional financing, beyond the amount specified in the loan agreement, for an investment project under implementation to finance (a) completion of the original project activities in the event of an unanticipated financing gap or a cost overrun; (b) activities that scale up a project’s impact and development effectiveness; and/or (c) modified project activities included as part of project restructuring when the original loan amount is insufficient to cover such activities.
2. The Bank provides additional financing only when it is satisfied that (a) implementation of the project, including substantial compliance with loan covenants, is satisfactory, and (b) the additional financing is economically justified. When providing additional financing, the Bank also:

¹ “Bank” includes IBRD and IDA; “borrower” includes credit and grant recipient; “loan” includes IBRD loans, IDA credits or grants, and recipient executed trust funds; “additional financing” includes IBRD loans, IDA credits, IDA grants, and recipient executed trust funds; and “project” means the original investment project processed under OP/BP 10.00, *Investment Lending: Identification to Board Presentation*, OP/BP 8.00, *Rapid Response to Crises and Emergencies*, or OP/BP 14.40, *Trust Funds*. Upon approval of an additional loan processed under OP/BP 13.20, *Additional Financing*, “project” means the original project expanded to include activities financed under the additional loan. The policy and procedures on additional financing do not apply to development policy lending, for which the policy and procedures are set out in OP/BP 8.60, *Development Policy Lending*.

- (i) ensures that such activities are consistent with the development objectives⁵ of the project and with the current Country Assistance Strategy or Country Partnership Strategy;
- (ii) appraises the activities⁶; and
- (iii) confirms that the additional loan is expected to close within three years after the current closing date for the original loan.

3. When the source of financing is IBRD or IDA, additional financing is provided as a separate loan and constitutes a new loan commitment. The financial terms and conditions for the additional loan are set in accordance with the provisions of OP 3.10, *Financial Terms and Conditions of IBRD Loans, IBRD Hedging Products, and IDA Credits*. The loan is subject to approval by the Bank's Board of Executive Directors. When the source of financing is a trust fund, additional financing also constitutes a new commitment and is approved according to the provisions of OP 14.40, *Trust Funds*.⁷

² This means the original project development objectives or, when the project objectives have been changed as part of project restructuring, the revised project development objectives (see BP 13.05, Project Supervision).

³ This appraisal, like any project appraisal, covers the economic, financial, technical, institutional, fiduciary, and any safeguards aspects that are relevant to such activities, and their impact on the project under implementation.

⁴ See footnote 9 of OP 14.40, *Trust Funds*.