

**PROPOSAL FOR A NEW LENDING INSTRUMENT  
CONDITIONAL CREDIT LINE FOR INVESTMENT PROJECTS  
(CCLIP)**

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## **PROPOSAL FOR A NEW LENDING INSTRUMENT CONDITIONAL CREDIT LINE FOR INVESTMENT PROJECTS**

### **A. Background**

- 1.1 On January 11, 2002, the Ad-hoc Committee of the Board of Executive Directors presented to the Committee of the Board of Governors a Progress Report on the Status of the Proposed New Lending Instruments (CS-3403) introducing eight new lending instruments that Management will be analyzing over the next two years. This document presents a proposal for the first of these lending instruments. It was prepared by an inter-departmental working group consisting of the three regional departments, FIN, LEG and DPP.

### **B. Objective**

- 1.2 The Conditional Credit Line for Investment Projects (CCLIP) is a lending instrument for financing investment projects<sup>1</sup> that will increase the Bank's efficiency and speed in the loan preparation and approval process, and reduce loan-processing costs for both the Bank and its Borrowers.
- 1.3 The CCLIP is a performance-based instrument, since it can only be used in those cases where successful project performance can be demonstrated both with respect to execution and results. In addition, the evaluation of past project performance will generate lessons-learned that will help improve the quality at entry of new operations financed against the line of credit. The CCLIP will provide incentives to executing agencies that have a solid track record of good performance, to maintain or further improve performance. Furthermore, because project supervision, monitoring and evaluation play a key role in this instrument, it is expected to enhance the executing agencies' capacity in these areas.
- 1.4 Other benefits of this instrument include the following: (i) it provides borrowers with timely resources allowing investment programs to have continuity; (ii) it provides a vehicle for efficient Bank support and continuous presence in sectors in which its investments have achieved its development objectives; (iii) it encourages staff continuity in executing agencies; and (iv) it places a premium on continuous institutional analysis.
- 1.5 The CCLIP responds to two recommendations for Bank action emphasized in the Bank's Institutional Strategy (GN-2077-1). The first calls for the creation of "special purpose lines of credit in areas in which there is broad agreement about what should be done and need for an expedited method of financing such actions." The second involves streamlining the Bank's loan approval procedures.

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<sup>1</sup> Investment projects include those whose funds are disbursed against specific expenditures incurred by the operation. It excludes policy-based loans (PBL) and emergency loans.

- 1.6 The instrument also responds to the recent heightened call by Borrowers for the IDB to be speedier and more flexible in the processing and approval of loan operations. The Bank is presently in the process of examining its loan approval procedures in an effort to make loan approval faster and easier while maintaining quality. This new instrument complements these efforts.

### **C. Description**

- 1.7 The CCLIP will provide a credit line to finance investment projects in those cases where there is a good track record of similar previous Bank-financed operations in a given country and sector. The credit line will finance additional similar projects through individual loans. To obtain this line of credit, the previous operations must have had a satisfactory performance, and the executing agency must have been the same for previous operations and maintained a solid track record of good performance. Similarly, the approval of individual loans against the line of credit will be subject to the satisfactory performance of the previous operations financed under the credit line.
- 1.8 The processing and authorization of the line of credit will be similar to that of investment operations. The individual projects under the line of credit, on the other hand, will be approved under streamlined document and committee approval requirements, thus accelerating the speed at which these operations are approved. The government's liaison institution with the IDB, usually the Ministry of Finance, will negotiate and manage the credit line, whereas the individual projects within the line of credit will be executed by the executing agency.
- 1.9 The authorization of the credit line will result in a "conditional commitment" by which the Borrower and the Bank will not actually incur the cost of committing resources until the individual loan operations are approved. The credit fee would, therefore, only be applied once an individual operation is approved under the credit line. (i.e. the credit fee will not be paid on the entire line of credit, but on the undisbursed balance corresponding to the individual loan operations approved.) The unused portion of the credit line would not tie up any of the unused OC lending authority, and hence would not "crowd out" other loans seeking to immediately use such authority. Likewise, in the case of FSO, the unused portion of the credit line would not tie up any of the unused FSO country allocation.
- 1.10 The approval of individual loan operations using OC or FSO will depend on the availability of these resources, within the Bank's overall programming constraints, for the period in question. FSO loan approval would also be subject to the respective country allocation.
- 1.11 The CCLIP instrument could be used, for example, where the Bank has already financed one highway project in a particular country. Let us assume that: the project was well executed; it is likely to achieve its development objectives; its investments are being adequately operated and maintained; and the executing

agency has demonstrated a solid track record of good performance. The borrower requests the Bank to finance a second highway project, and is likely to request additional financing for similar projects in the future. In this case, a credit line, for a pre-determined amount, could be provided to finance the second and subsequent similar highway projects. The credit line would be authorized following the standard procedures of any investment loan. Subsequent projects financed against the credit line would be prepared and approved using the simpler procedure described below, reducing the loan processing time to both the Bank and the Borrower. Similarly, this instrument could be used for global credit programs, social investment funds, multiple-works programs, and others.

- 1.12 As an estimate of potential demand for this instrument, data on projects approved in their second or later stages were reviewed. Since 1994, 72 projects, representing approximately 13 percent of all public sector investment projects approved were identified as being in their second or later stage<sup>2</sup>. These projects provide a lower bound indication of potential demand for the CCLIP.
- 1.13 It should be noted that this instrument is different from the existing multi-phase loan instrument. A multi-phase loan provides long-term support of a far-reaching investment program, which by its nature and complexity requires more than one project cycle to complete. This multi-year framework serves as an umbrella for a series of individual operations each of which builds on the previous ones in supporting the goals set in the overall framework. In the case of the CCLIP, on the other hand, the projects financed under the credit line are independent of one another. Projects do not build on previous ones, and do not depend on previous projects to achieve their objectives. In addition, unlike many multi-phase operations, projects financed under a CCLIP are similar to one another.

## **D. Operational Aspects**

### **1. Eligibility Criteria**

- 1.14 The authorization of the credit line is subject to specific eligibility criteria, which will need to be demonstrated in the credit line proposal. In order to ensure that these criteria continue to be complied with throughout the life of the credit line, individual operations financed under the line of credit, will also need to demonstrate that they fulfill criteria prior to approval. All sectors and investment projects are eligible for this instrument, provided that they fulfill the criteria presented below.

#### **a) Credit Line**

- 1.15 To obtain a credit line the Borrower needs to meet the following criteria:
  - i. At least one similar Bank project has been executed by the same executing agency. The first project must have completed its execution.

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<sup>2</sup> This figure excludes multi-phase operations.

- ii. The previous project must comply with the following: (a) its overall execution performance and progress in achieving expected results must have been satisfactory;<sup>3</sup> (b) the Borrower and Executing Agency must have complied with the contractual conditions of the Loan Contract, and with the Bank's disbursement and procurement policies; (c) audited financial statements must be up to date and unqualified; and (d) the investments completed with financing from the project are adequately operated and maintained.
- iii. The executing agency has had a solid track record of satisfactory performance in the execution of the previous project. In addition, the institutional analysis must demonstrate that a satisfactory performance record is expected to be maintained in the areas to be covered under the credit line.
- iv. The areas to be financed under the credit line are within the priorities defined in the country strategy and program with the Bank.

#### **b) Individual Loan Operations**

1.16 For an operation to be financed through the credit line it must comply with the following criteria:

- i. The individual loan operation falls under the sectors and components defined under the credit line.
- ii. The operation is included in the country program.
- iii. The executing agency of the project is the same as that of the previous project, and its performance level in the areas financed by the CCLIP has not deteriorated. The executing agency must be an integral and sustainable part of the institution managing the sector, and not a unit created exclusively to execute CCLIP projects.<sup>4</sup> In addition, there should be assurances that the monitoring and evaluation system required will be in place during execution.
- iv. The previous projects, executed under the credit line, must comply with the following:<sup>5</sup>
  - Their execution performance was satisfactory and their development objectives are likely to be achieved.

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<sup>3</sup> Among the sources used for this assessment are included the regular reports generated by the Bank's monitoring and evaluation system (e. g. PPMR, mid-term evaluations, among others).

<sup>4</sup> The continuity of the executing agency in performing the functions related to the CCLIP, including that of the core staff, would be an important variable to consider.

<sup>5</sup> Given that the creation of the credit line requires an evaluation of the previous project, the first project financed under the credit line needs only to make reference to this evaluation.

- For the previous project, at least 75% of its funds have been committed, or 50% of its funds disbursed.<sup>6</sup>
- The Borrower and Executing Agency have complied with the contractual conditions of the Loan Contract and with the Bank's disbursement and procurement policies.
- Audited financial statements must be up to date and unqualified. .

## **2. Processing, Approval and Execution Procedures**

- 1.17 The processing, approval and execution of CCLIP operations would entail two sets of activities: (a) the creation of the credit line; and (b) the approval of individual operations under the credit line. The processing for both the credit line and the individual operations would be the responsibility of the respective Project Team.

### **a) Credit Line**

- 1.18 The Borrower must formally present a request to the Bank for a credit line. The credit line is then included in the Bank's operational program with the country. Once it has been established that the requested credit line complies with the eligibility criteria, the Project Team, in conjunction with the corresponding country authorities, would proceed to prepare the line of credit proposal.
- 1.19 In addition to what is required of any loan proposal, the credit proposal will also include: the rationale for using the credit line; evidence that all the eligibility criteria for the line of credit have been met; and a thorough institutional analysis of the executing agency demonstrating that a good performance record is expected to be maintained in the areas to be covered under the line of credit. The dimension and the period of utilization of the credit line need to be specified and justified taking into account the size of the previous operations, the number of individual projects planned to be financed through the credit line, and the estimated execution period of each individual project.
- 1.20 The sectors and components included in the line of credit should be the same as those in the previous operation. If it is considered necessary that the line of credit include additional components, they need to be justified and analyzed in the credit line proposal. It should be clearly demonstrated, however, that the executing agency has the capacity to manage the inclusion of these new components and that its performance level will not be negatively affected.
- 1.21 The Bank's processing and authorization of the line of credit will be similar to that of investment operations. Under the current procedures it will include a Profile I, Profile II and a Credit Line Proposal, and will be reviewed by the usual

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<sup>6</sup> Global Credit Programs will follow the existing Bank policy (GN-779-3 and GN-750) requiring that at least 75% of its funds be committed, and 50% of its funds be disbursed.

committees of Management and the Board<sup>7</sup>. After it has been authorized by the Board, an Agreement, establishing the line of credit specifying the maximum amount of the credit line, the executing agency, eligible sectors and components, general conditions and procurement rules, would be signed by the Borrower and the Bank.

#### **b) Individual Loan Operations**

- 1.22 With respect to the individual loan operation financed against the line of credit, they will form part of the regular country programming process of the Bank. The operation must be included in the programming documents and be identified as a CCLIP operation. Inclusion of a CCLIP operation in the pipeline will take place at the time when the Programming Mission Report is approved by the Programming Committee, and, in the case of concessional resources, will be subject to the availability of resources in the respective programming cycle and country allocation. At this stage, the abstract describing the project will be made available through the Bank's public information system (PIC).
- 1.23 The difference from stand-alone investment projects lies in shortening both the loan preparation and approval process. The operation will not require a Profile I or a Profile II. It will only require an analysis mission<sup>8</sup> and a simplified project proposal. Such a proposal will include: a description of the project, its costs, its schedule of disbursements, justification of its dimension, demonstration that the eligibility criteria for individual operations are met, a logical framework, and performance indicators.
- 1.24 The loan proposal will be reviewed by a CRG and by CESI members<sup>9</sup>. The proposal package (including the Minutes of the CRG and the CESI) will then be sent to the Executive Vice-President's Office with copy to all the members of the Loan Committee. If, within a period of five working days, the EVP's Office has not objected to the proposal, the loan will be negotiated with the Borrower. Once negotiated, it will be sent to the Board by short procedure.<sup>10</sup> However, if the Bank requires the project to have an Environmental Impact Assessment, or the project involves extensive consultations with stakeholders, the Board will

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<sup>7</sup> These procedures will be adjusted to reflect any changes resulting from the review of Bank approval procedures currently taking place.

<sup>8</sup> Prior to the analysis mission, the project team will need to consult with the appropriate CESI members on the project-specific environmental issues that might arise from the strategic impact assessment undertaken when the credit line was created. No formal approval by the CESI would be required at this stage.

<sup>9</sup> The CESI members would review the loan proposal following a simplified procedure, which, according to PR-204, does not require a formal meeting between CESI and the Project Team. It consists of an electronic dialogue between CESI members and the project teams.

<sup>10</sup> According to the Regulations of the Board of Executive Directors, through Short Procedure, the Board reviews the document for a period of 5 working days. The document is not discussed unless an Executive Director interrupts the Short Procedure and requests that the document be placed on the COW Agenda for consideration. If, after 5 days, there is no objection by the Board, the document is considered approved.

consider the proposal under simplified procedure.<sup>11</sup> The individual loan operation will then be formalized by signing a Letter of Agreement between the Borrower and the Bank, based on the agreement establishing the credit line.

- 1.25 The simpler procedures proposed for the individual loans under the credit line are expected to significantly reduce the time and cost of the loan approval process. Eliminating the Profile I and II, simplifying the loan proposal, and reducing the number of missions, will have a substantial impact on both the cost and time of loan approval. It is estimated that following the proposed procedures for individual CCLIP projects would reduce the Bank's preparation cost per loan by approximately 40%. Likewise, the time involved to approve these loans by the Bank would be reduced by an estimated 50%. It is foreseen that the cost and time savings for CCLIP individual operations will continue being significant even if the new proposed approval procedures, presently under study by the Bank, are put in place.<sup>12</sup> Finally, in some countries the approval of a line of credit may obviate the need for legislative ratification of each individual operation under the CCLIP, thus also representing a timesaving between approval and execution of the operations.
- 1.26 Each operation under the credit line will be recorded as a new operation. Given the strength and performance of the executing agencies it is likely that these projects will disburse faster than the average loan, within the limits set in the Bank's New Lending Framework. A new operation can be approved once the execution of the previous operation has been substantially completed, by having at least 75% of the funds committed, or 50% of the funds disbursed. The execution of all projects will follow the standard Bank policies, norms and procedures of investment operations.

## **E. Monitoring and Evaluation**

- 1.27 Performance monitoring and evaluation play a key role in this lending instrument since the approval of the line of credit is subject to the evaluation results of previous operations. Likewise, all individual projects under the line of credit need to be evaluated before a subsequent project can be approved. In addition, the institutional capacity of the executing agency will be continuously monitored to ensure good performance. Finally, the evaluation requirements to implement the line of credit will contribute to strengthen the evaluation capacity of the executing agency involved.

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<sup>11</sup> According to the Regulations of the Board of Executive Directors, through Simplified Procedure, the Board reviews the document for a period of 21 calendar days. The document is included directly in the agenda of a formal meeting of the Board of Executive Directors and not discussed in the Committee of the Whole (COW) unless an Executive Director requests that the document be placed on the COW agenda for consideration.

<sup>12</sup> These procedures propose *replacing* the Profile I and Profile II with a Project Concept Document whereas the CCLIP *eliminates* these requirements for individual loan operations under the credit line.

- 1.28 As in any investment operation, the individual loan operations will follow all Bank procedures regarding monitoring and evaluation. It is critical that the executing agency be informed at an early stage of all the requirements on monitoring and evaluation that these operations imply, and ensure, with the assistance of the Bank, that the necessary institutional capacity will be in place during execution.

**F. Financial Conditions**

- 1.29 As indicated above, approval of a line of credit does not require the commitment of lending authority resources by the Bank, but represents the maximum total amount against which the individual loans may be approved. The Borrower does not pay any fees on the credit line. The Bank will only commit resources when the Board of Executive Directors approves the individual operations. Standard financial conditions (i.e., lending rate, credit, inspection and supervision fees, and grace and amortization periods) will apply for each individual operation under the line of credit.

**G. Pilot Program**

- 1.30 It is proposed that this new lending instrument be initiated as a pilot program. In order to provide sufficient time for the CCLIP to yield the necessary information on its operational use, the pilot program would last six years. In the third year of the program, Management will provide the Board with a progress report on the implementation of the instrument. At the end of the pilot program, Management will deliver to the Board an evaluation of the program and recommendations for future action regarding the instrument.

**H. Recommendations**

- 1.31 Management recommends that the Board of Executive Directors adopt the “Conditional Credit Line for Investment Projects” as a lending instrument of the Bank in accordance with the guidelines described above, by approving the proposed resolution attached hereto as Annex 1.

PROPOSED RESOLUTION DE-\_\_\_\_/03

Lending Instrument:  
Conditional Credit Line for Investment Projects  
Regulations of the Board of Executive Directors

The Board of Executive Directors

RESOLVES:

1. To adopt a "Conditional Credit Line for Investment Projects" as a lending instrument of the Bank, in accordance with the guidelines described for such instrument in Document No. GN-\_\_\_\_\_.

2. To amend the Regulations of the Board of Executive Directors in order to include in Part III, Section 2(j) the following item to be processed under Short Procedure: "... (xix) loans for individual operations to be financed under a Conditional Credit Line for Investment Projects that has been approved by the Board of Executive Directors provided, however, that this provision shall not apply to individual operations for which the Bank required an Environmental Impact Assessment to be carried out, or for which extensive consultations with stakeholders were undertaken.

3. To establish that any loan for an individual operation to be financed under a Conditional Credit Line for Investment Projects which may not be processed under Short Procedure pursuant to the provisions of paragraph 2 above, may be approved by the Board of Executive Directors without prior consideration in the Committee of the Whole, as contemplated in the Regulations of the Board of Executive Directors, Part III, Section 2(b), provided that at least twenty-one calendar days prior to the approval of the loan, Management has submitted to the Board of Executive Directors the document for the approval of the loan for the individual operation.

4. As a consequence of the provisions of paragraph 3 above, to further amend paragraph 2 of Document No. GN-1838-1 of July 1, 1994, as amended by Resolution DE-29/00, such that subparagraph (f) shall read as follows: "(f) the provisions of subparagraphs (a), (c) and (e) shall not apply in the case of: (i) loans for the second or subsequent phases of Multi-Phase Programs, or (ii) loans for individual operations under a Conditional Credit Line for Investment Projects, which may be approved by the Board of Executive Directors without prior consideration in the Committee of the Whole."