

IBRD Project Cycle

LENDING STRATEGY

Within the framework of lending for development projects, the World Bank has substantially changed the volume and strategy of its lending. It has been allocating an increasing number of loans, primarily for co-financed projects. The Bank has refocused its lending from Europe and Latin America mainly to developing countries and countries in transition and to projects that directly address the poverty sometimes resulting from accelerated economic expansion. In addition, the basic infrastructure lending has been shifted towards more comprehensive programs for growth and macroeconomic restructuring.

Each project has to go through a project cycle procedure before the loan agreement is actually signed. The project cycle is driven and performed by the Bank's project staff, which consists of approximately 1300 employees. The project staff comprise about three-quarters of the operational staff and about half of all professional staff.

This chapter describes the phases of the IBRD and IDA's project cycle and identifies the ways in which groups affected by the project, along with NGOs, can intervene in the process. The International Finance Corporation's project cycle resembles the procedure that is described here. However, the IFC's process is even less transparent.

PROJECT CYCLE

Identification

In the first phase of the project cycle, the projects suitable for World Bank support and

of high priority for the government and borrower are identified on the basis of an economic and a sector analysis. The Bank also assesses the creditworthiness of the country and checks whether the project fits into a coherent development strategy. The proposed projects undergo a test of feasibility to make sure the costs are commensurate with the expected benefits of the investment. The Project Concept Document and the Project Information Document prepared by the task team give a brief description of the project, including the identification of the key environmental issues, the project category, the type of EA needed, and a proposal for public consultation. The task team also prepares and updates an Environmental Data Sheet for each project.

The economic analysis of the affected country is prepared by the Bank, while the sector analysis might be carried out by the country itself, by the Bank or an UN agency cooperating with the Bank. As a result of the identification phase, the projects are incorporated into the World Bank's lending program.

Preparation

In the project brief, the objectives of the project are described, the principal issues are identified, and a timetable for further processing is set. Preparation of a project must cover all the economic and financial, technical and institutional conditions necessary to achieve the project's objectives. In addition, technical and institutional alternatives have to be identified to ensure the project's feasibility.

The task team prepares the Project Concept Review, which determinates a type of the Environmental Assessment required for Category B projects. The EA should be carried out by the borrower who can engage an

advisory panel of independent and internationally recognized specialists for projects with high environmental risk. The Operational Policy 4.01 on Environmental Assessments requires the borrower to consult project-affected groups and local NGOs during the EA process.

Formally, the borrower is responsible for the preparation of the projects; however, the collaboration between the Bank and the borrower begins in this phase. The Bank, in order to ensure that the projects are well-prepared and its requirements and standards are met, provides assistance to the borrower.

The Bank may even provide special loans for technical assistance and engineering under the Project Preparation Facility or under its cooperative programs with UN agencies. The preparatory phase ends when both the Bank and the borrower find the acceptable technical solution, appropriate organizational structure for the project implementation, and methods for dealing with anticipated problems.

Appraisal

Appraisal covers four main aspects of a project – technical, institutional, economic and financial. The technical appraisal is to ensure a sound design, appropriate engineering, and project compliance with the Bank's standards. It examines technical alternatives, proposed solutions, and expected results, as well as the potential impact of the project on the human and physical environment. The Factual Technical Project Document also includes a review of cost estimates, and proposes procedures for obtaining professional services.

The institutional appraisal aims at creating a sound institutional background for the project implementation. Institution building refers to the implementing organization, management, and staff, and to the policies and procedures that determine conditions under which the institution operates. In designing institutional background, the Bank should consider the unique features of the cultural environment.

The economic appraisal is to assess how the project contributes to the development

objectives of a country. It contains a cost-benefit analysis of alternative projects, but it does not necessarily include the economic rate of return analysis. The risk/probability analysis is carried out even less frequently.

The financial analysis is to ensure the availability of sufficient funds that will cover the costs of implementation. Another purpose is to ensure that the country will be able to pay back the loan to the Bank. Investment and operating costs of the project are expected to be recovered from the project benefits such as increased taxes and charges levied for the use of the built facility. The level of interest charges is also considered in the financial analysis.

Appraisal is the Bank's responsibility and is conducted by Bank staff. Individual consultants are sometimes engaged to provide information based on their experiences with the site. At the end of this phase, the Project Appraisal Document, which contains views of the staff concerning the project, is compiled and prepared for presentation to the Board. As the Bank is closely involved in the first two phases of the project cycle, the project is not likely to be rejected in the appraisal phase. . However, the project still might go through substantial changes.

Negotiations and Board presentation

During the negotiations, an agreement is reached between the Bank and the government. The aim is to take the measures that will ensure the success of the project. The government of the borrowing country usually has to consider advice given by the Bank on professional issues. At the same time, the Bank should be more inclined to adapt its policies and requirements to local conditions.

After the agreement is reached, the loan documents, together with the President's report, are presented to the Board of Executive Directors. If the Board approves the project, the loan will be signed, and the borrower can start with the project implementation.

Implementation and Supervision

Implementation is the borrower's responsibility, but assistance might be provided by the Bank. Supervision is to ensure that the loans are spent for the purposes they were intended and that the procurement of goods and services is performed in compliance with the agreed rules. The Bank encourages the borrowing country to take domestic as well as foreign firms into consideration.

The supervision is done by the Bank's task team, which often incorporates monitoring and evaluation units. During the implementation, progress reports are prepared according to the agreement with the borrowing government. These reports are also reviewed at the Bank headquarters. According to the BP 4.01, "if compliance (with environmental covenants) is not satisfactory, the task team discusses an appropriate course of action with the Regional Environment Sector Unit and the Legal Department".

Evaluation

An ex post evaluation is now a requirement for all World Bank projects. The evaluation phase was added to the project cycle in 1970, and a separate unit, the Operations Evaluation Department, was set up to perform the auditing. The Bank staff prepares a Project Completion Report, which contains the evaluation of EA and effectiveness of mitigatory measures. This Report is submitted to the Operations Evaluation Department, which prepares its own report, not necessarily after a field review. Both reports are presented to the Board of Executive Directors. Borrowers are asked to comment on the OED report and to prepare their own completion report. It is also recommended that the borrowers set up an evaluation system to review the development investments.

The audits re-estimate the project's economic rate of return, but the success or failure of the project can usually be judged only years after the disbursement period due to the long term impact of the investments. Because of that, the OED re-evaluates a few carefully selected projects five years after the last disbursement.

In addition, the OED's annual report reviews all project audits and gives an in-depth analysis of a group of projects, specific problems, or a particular sector of a certain country.

How to intervene in the project cycle

Individuals and NGOs may have a reason for intervening in the project cycle, such as:

- if the bank policies violate their right to information;
- if the project documents are not made publicly available as required by the Bank policies;
- if the projects are downgraded in terms of categorization, thus weakening the requirements for environmental assessment; and
- if the public consultation is missing during the EA procedure.

The first phase when actions can be taken is the preparatory phase, since the first information available (Project Information Document) is released at the end of the identification phase.

There are three major fora to which NGOs can turn when they want to get information about the project or to oppose the Bank's measures and policies. First, they may contact the local World Bank office since it has all the documents concerning the projects in the respective country. If they do not provide an adequate reply to the request or inquiry, the Washington-based task team dealing with the project should be addressed. If the task team refuses to give an answer, citizens or NGOs can turn to the highest level– the Executive Directors.

If affected people feel financially harmed by the Bank policy or project, they can turn to the independent Inspection Panel of the Bank and request an investigation. Complaints can be submitted in a written form following any harm suffered due to the design, the appraisal or the implementation of a project. The Panel is the only independent body that has access to

all Bank documents. However, this procedure is controversial because: :

- only entities affected by the project can file a complaint with the Panel;
- no individuals are entitled to file a claim;
- claims are investigated only if the complainant has already filed it with the management and has not received an adequate reply
- the Board determines whether the claims can be investigated by the Panel; and
- there is no time limit for the investigation of a claim.

After a claim is investigated, the Board makes the final decision on the measures to be taken, based on the Panel report and the recommendations of the management. At IFC, an Ombudsperson is at the complainants' disposal.

This briefing was prepared by Teodóra Dönsz for the CEE Bankwatch Network.

The CEE Bankwatch Network is an international non-governmental organization (NGO) with member organizations from countries of Central and Eastern Europe and the Commonwealth of Independent States. The basic aims of the network are to monitor activities of the International Financial Institutions in the region, and to promote constructive alternatives to their policies and projects. The CEE Bankwatch Network was formally set up in 1995, and become one of the strongest network of environmental NGOs in Central and Eastern Europe.

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