BUSINESSEUROPE

POSITION PAPER

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A NEW INSTRUMENT TO ADVANCE DEVELOPMENT EFFECTIVENESS: WORLD BANK PROGRAM-FOR-RESULTS

BUSINESSEUROPE is the voice of European industry. Its members are 41 leading national industry federations from 35 countries. We appreciate the occasion to assess the revised concept note "A New Instrument to Advance Development Effectiveness: Program-For-Results" (P4R). Some of our member federations have contributed to the first round of consultations and welcome the fact that suggestions made previously are being integrated into the revised concept notes. However, BUSINESSEUROPE still thinks that a number of remaining concerns persist.

BUSINESSEUROPE believes that the need for the P4R has not been sufficiently demonstrated. In fact, many variations of the "Programmatic Investment Lending" already exist, such as SWAps, APL, OBA, CCTs and RBFH, which have worked well for many years.

Therefore, we ask the World Bank to consider the following remarks during the second period of consultation and to amend the revised concept note accordingly:

1. P4R should be treated as a "pilot project" that has to be tested before considering it an institutionalised lending instrument.

2. Criteria defining the eligibility of funding under P4R should be more constrained; especially the thresholds applicable to P4R funding should be reduced.

3. The allocation of funding for P4R should not be at the expense of funding for Investment Lending (IL).

4. Long standing and internationally agreed World Bank policies/ standards on accountability, audit, financial management and fiduciary control as well as gender, social/ labour and environmental safeguards should be applied under P4R.

5. Borrowing countries need to demonstrate the institutional capacities to administer P4R projects effectively.

6. Mechanisms dealing with corruption and fraud should be more stringent. Besides curbing the high degree of responsibilities given to borrowing countries, the World Bank should keep applying its strong existing anti-corruption mechanisms.

Points to be considered:

1. **P4R should be treated as a "pilot project" that has to be tested before considering it an institutionalised lending instrument.**

- Already established lending instruments, such as Investment Lending (IL), of the World Bank have been proven successful for all stake-holders involved and are trusted by partners of the World Bank. The World Bank should not jeopardise the success of conventional lending instruments in favour of untested and unpredictable lending instruments. Therefore, we propose that P4R is implemented under the premise of being a "pilot project". The World Bank states that a pilot scheme is unnecessary "(…) because the Bank has already endeavoured to undertake program-based operations under Investment Lending (IL) (…)". However, it is unclear which projects are being referred to; simply referring to past projects is not eliminating our concerns over the feasibility of P4R projects. Considering P4R a pilot project would help to foster trust in the viability of P4R projects by international partners. Countries eligible to apply for P4R funding should be limited to 10- 15 countries. These countries should be carefully selected on the basis of their institutional capacity to administer a P4R project successfully. Furthermore, we urge the World Bank to identify suitable sectors and sub-sectors applicable to P4R.
  The threshold for a review should be markedly lower than 5bn USD. We therefore propose a first review being carried out within 12 months of the implementation of P4R as a pilot scheme. In this respect, shortcomings and pitfalls of the instrument can be identified well in advance, limiting the potential risk exposure of the Bank.

2. **Criteria defining the eligibility of funding under P4R should be more constrained; especially the thresholds applicable to P4R funding should be reduced.**

- Projects under IL have been proven workable and are generally appreciated by international partners whereas P4R projects constitute a turn away from past projects. Therefore, only a small percentage of funds should be allocated for P4R based projects. We advocate that thresholds for contracts excluded by P4R are substantially lowered. Thresholds currently in place should be adjusted to the following: less than 5mil. USD for works, 750.000 USD for goods, 650.000 USD for IT- systems and non-consulting services and 250.000 USD for consulting services. These projects are not supported by P4R and require a mandatory review by the World Bank's Operations Procurement Review Committee. A survey of the World Bank's data containing implemented IL projects reveals that most of the contracts of e.g. German companies are valued at less than 500.000 USD. We strongly recommend that similar projects in the future remain under the funding of IL.

- The World Bank proposes that activities surpassing these thresholds may be included in a P4R approach, if deemed important to the success of a programme. We reject any exceptions to thresholds unless potential exceptions have been rigidly probed and approved by the Board of Executive Directors.

3. The allocation of funding for P4R should not be at the expense of funding under IL.

- Traditional lending instruments like IL have demonstrated a high degree of integrity. The Bank allocates 10% of its overall lending for P4R based projects in the first year. No new funds are being raised, but instead funds are going to be cut for existing lending instruments that have been proven successful. We suggest a significantly lower amount than 10% of overall Bank lending should be assigned to P4R projects, as there is a risk of new P4R projects being implemented at the expense of successfully proven IL projects. The allocation of P4R lending should under no circumstances increase above 10% in any case. In case of a competition for funding between IL or P4R projects, IL projects should be given priority, as these projects have a proven track-record of success. In this regard the Board of Executive Directors should have final authority on which project receives funding, instead of the Bank Management.

4. Long standing and internationally agreed World Bank policies/ standards on accountability, audit, financial management and fiduciary control as well as gender, social/ labour and environmental safeguards should be applied under P4R.

- Past World Bank procedures under IL have a strong record of achievement and reliability. A policy change from already internationally agreed and practised World Bank policies, standard bidding documents and safeguards towards country systems that do not meet international standards will increase unpredictability, costs, risks and barriers to enterprise. The World Bank evaluates the ability of the borrowing country to administer adequate procurement, tendering and bidding procedures. However, it is to the discretion of the allocated task team to judge prospective borrowing countries' abilities under the criteria of "reasonable" in order to obtain funding. This approach fails to guarantee compliance with internationally agreed standards and is too weak and arbitrary to be effective. More stringent criteria need to be put in effect to make sure that borrowing countries have the capacity to ensure a fair level-playing field for all businesses in tenders.

5. **Borrowing countries need to demonstrate adequate institutional capacities to administer P4R projects effectively.**

- Capacity building has been a strong suit of the World Bank under past projects funded under IL. Measures to increase institutional capacities of borrowing countries should not be neglected under P4R. We would like to reiterate the remark of our member organisation BDI that concerns remain over borrowing countries' institutional capacities to manage the transparent, effective and efficient use of funds during the first round of consultation. The World Bank wants to mitigate the risk by proposing to evaluate the appropriateness of a country on the basis of its already existing Country Assistance Strategy/ Country Assistance Partnership Strategy (CAS/CPS). The evaluation on the ground of the aforementioned processes is not rigid enough to guarantee the appropriate conduct of projects administered under P4R. We insist that the institutional capacities of a country have to be appraised independently for the sole purpose of executing a P4R driven programme. The task team is required to judge prospective borrowing countries' institutional capacities as "reasonable" in order to obtain funding. This approach to making sure that institutional capacities are in place is too weak and arbitrary to be effective. More rigid criteria need to be put in place.

6. **Mechanisms dealing with corruption and fraud should be more stringent. Besides curbing the high degree of responsibility given to borrowing countries, the World Bank should keep applying its strong existing anti-corruption mechanisms.**

- The World Bank has established procedures as to how to deal with allegations of corruption and fraud effectively. These procedures are internationally recognised across industries. The World Bank has developed a new set of guidelines on how best to deal with corruption, as set out in the Anti-Corruption Guidelines (ACG). The ACG establishes that the borrowing country has the obligation to ensure that corruption allegations are being investigated prior to notifying the World Bank. We strongly recommend that the World Bank is complying with past anti-corruption guidelines by ensuring that the duty to investigate corruption and fraud allegations is independently implemented by the World Bank. Independent operatives like the World Bank's Vice Presidency Integrity (INT) have proven to be highly effective in this respect and should remain in that role when dealing with corruption and fraud under the P4R framework. In this regard, BUSINESSEUROPE recommends removing the exceptional circumstances stipulated in article 76.

- In addition to borrowing countries implementing their own Monitoring & Evaluation (M&E) procedures, the World Bank should carry out independent mid-term and final evaluations of ongoing programmes. While doing this, the World Bank should retain its strong focus on capacity building and provide borrowing countries with greater assistance in this regard. To ensure stringent application of anti-corruption mechanisms, BUSINESSEUROPE calls for a strengthening of § 7 and § 8 of the "Guidelines on Preventing and Combating Fraud and Corruption in Program-for-Results Financing", by making them also applicable to entities and individuals of the Member Countries.

Further remarks for consideration:

- P4R intends to link the disbursement of funds to performance indicators (DLI). However, the Operational Framework Policies (OP) as well as the Bank's Procedures (BP) lack tangible indicators that are universally applicable to P4R projects. The World Bank needs to go a step further by defining performance benchmarks, create result frameworks, and establish reliable and independent data collection processes. In addition, the World Bank considers disbursing "advance funding" that can be obtained without having reached pre-defined indicators. We strongly recommend that receiving advance funds is only possible if it is proven that a DLI is on the verge of being met. There should be no other exceptions to the disbursement of funds prior to achieving pre-agreed indicators.