30/09/2011

Following are International Rivers' comments and recommendations regarding the proposed **Program-for-Results** lending instrument and the accompanying proposed **OP 9.00**. Please contact me at zachary@internationalrivers.org or 415-341-5264 if you have any questions or would like to discuss.

1. *No clear baselines for assessment of borrowing institution capacities.* The metrics for assessing borrowing institution capacities before application of P4R are unclear. Clear methodologies, standards, and baselines should exist for technical, fiduciary, environmental and social, and integrated risk assessments, beyond the subjective criteria of program and project team leaders assessed "in dialogue" with borrowing institutions. For example, the note identifies the need to assess operating environment risks including "political economy, governance (including fraud and corruption), and the independence of civil society" (p. 21) but does not clearly explain the methodology for doing so or baseline standards for acceptability or violations in practice.

Recommendation: A set of baseline standards for institutional capacity should be developed to measure regulatory satisfaction with the preconditions of receiving P4R lending which have been described as the basis of the program's technical assessment, fiduciary assessment, environmental and social assessment, and integrated risk assessment.

2. *No clarity of how sustainability principles are leveraged through program lending.* OP 9.00 does not clearly explain how sustainability principles will be leveraged into clearly measurable results at borrowing institutions. The Environmental and Social Systems Assessment as described on pages 75-77 of the Policy paper should measure the efficacy of borrower institutions in adopting and implementing the thirteen listed sustainability principles (*a* through *m*). Yet the principles are weaker than the language of the OPs/BPs, and are incomplete even when compared to the IFC PS system. No leverage mechanism is identified that will assure measurable implementation of these principles, nor their codification into legislation, nor the tools which will be used for monitoring and evaluation. By making the twenty-six OPs/BPs listed in Annex C non-applicable to P4R and reducing them to thirteen guiding principles for borrower institutions, the World Bank is taking a leap of faith that borrower institutions will codify these guiding principles as binding precautionary measures that parallel in meaningful ways the intentions of the investment lending OPs/BPs.

Recommendation: If investment lending OPs/BPs are to be interpolated in any meaningful way into P4R, OP 9.00 must have stronger teeth in its ability to incentivize borrowers to strengthen their institutional capacities to create their own safeguards through regulatory reform. Strengthen the language and expand the scope of these thirteen guiding principles, and strengthen the ability of OP 9.00 to leverage the principles into legislation. The safety net should be to keep the twenty-six OPs/BPs applicable to P4R.

3. *Lack of clarity over risk categorization and IL-P4R relation.* It is unclear how program and project risks will be categorized, and it is unclear whether P4R lending will support programs that finance Category A projects. It was stated to us in an official consultation on September 21st, 2011 that P4R would not finance any Category A projects. But it remains unclear whether the commitment remains the same for P4R lending *to programs that would finance Category A projects.* The text states that certain high-risk activities will be excluded from P4R: "new or major expansion of large-scale infrastructure investments are not eligible for Program-for-Results financing" (p. 12, footnote 6). Yet, the excluded activities remain eligible for investment

2150 Allston Way, Suite 300, Berkeley CA 94704,1378, USA | Tel: + 1 510 848 1155 | Fax: + 1 510 848 1008
info@internationalrivers.org | internationalrivers.org

lending parallel to P4R lending, or through a "distinct IL activity under the program operation," which is being called a "hybrid P4R-IL operation." As a result, there is no guarantee that financing from P4R lending or a hybrid IL-P4R will not be used by the borrowing institution to finance a Category A project.

Recommendation: The definition and scope of P4R must be strengthened and separated exclusively from that of IL. It must be made explicit that both P4R lending and IL-P4R hybrids will not be made available to borrowing institutions that seek to finance Category A projects as defined by the Bank's own IL risk categorization system.

4. Lack of clarity over implementation, M&E, and accountability. P4R overcompensates on investment lending implementation deficiencies by squarely placing the responsibility for implementation and monitoring with the borrower, even though criteria to measure institutional capacity for implementation and M&E have not been developed. Especially where strengthening of borrower implementation capacity is involved, the Bank should be held co-responsible for project implementation and results. It is unclear whether addressing grievances over project impacts related to poor implementation will be the sole responsibility of the borrower system or whether the Bank's grievance mechanisms can be triggered.

Recommendation: As a minimum, a practical and functioning implementation, monitoring, and evaluation system should be in place at the borrowing institution as a prerequisite for disbursement not just of P4R finance but for all lending instruments, including DPL and IL. Such a system must also include operational accountability and grievance mechanisms and a policy of Transparency and Access to Information. If such systems do not exist, lending should be withheld; if it is not withheld, communities affected by project impacts should enjoy the right to utilize the Bank's accountability and grievance mechanisms.

Thank you,

Zachary Hurwitz
Policy Coordinator
International Rivers