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CONDITIONAL CREDIT LINE FOR INVESTMENT PROJECTS (CCLIP)

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CONDITIONAL CREDIT LINE FOR INVESTMENT PROJECTS

I. Objectives

- 1.1 The Conditional Credit Line for Investment Projects (CCLIP) is an instrument for financing investment loans, as well as issuing guarantees to support investment projects¹ that assists long-term sector and multisector strategic objectives in the countries of the Latin American and the Caribbean Region.
- 1.2 The CCLIP is also a performance-based instrument, since it provides incentives to executing agencies to have a solid track record of good performance on the operations financed under the Credit Line, either to maintain or further improve such performance. In addition, the assessment of previous project performance will generate lessons-learned that will help improve the quality at entry of new operations financed against the Credit Line. 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. The CCLIP is also intended to increase the Bank's efficiency and speed in the loan preparation and approval process and reduce loan-processing costs.
- 1.3 Other benefits include the following: (i) it generates consensus, harmony and synergies between the interventions financed under the CCLIP; (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.
- 1.4 When it was created, the CCLIP responded to two recommendations for Bank action emphasized in the Bank's previous Institutional Strategy (GN-2077-1). The first called 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 involved streamlining the Bank's loan approval procedures. The instrument responded to the call by Borrowers for the Bank to be speedier and more flexible in the processing and approval of investment loan operations, in an effort to make approval faster and easier while maintaining quality.
- 1.5 According to the Update to the Institutional Strategy (UIS). Development Solutions that Reignite Growth and Improve Lives (AB-3190-2) the three development challenges facing the Region (social exclusion and inequality, productivity and innovation and economic integration) continue requiring that the Bank take a multisector approach to its interventions. An important mechanism to facilitate the use of this approach is the Bank's lending instruments, particularly the CCLIP.

¹ Investment projects include those whose funds are disbursed against specific expenditures incurred by the operation. The CCLIP excludes guarantees supporting policy-based interventions (PBG), policy-based loans (PBL) and special development lending loans (SDL).

- 1.6 The UIS also calls for focus on (i) continuing to develop innovative instruments to leverage the capital of the Inter-American Development Bank Group (IDB Group); (ii) ensuring mobilization is considered in programming and project origination; (iii) creating internal incentives for mobilization; (iv) providing guidance and training to stakeholders on best practices; and (v) tracking mobilization and results, which could be boosted through the development of a CCLIP.

II. Description

- 2.1 A CCLIP can finance programs involving one sector or multiple sectors. Two types of multisector modalities can be used under a CCLIP. The first, Multisector Modality I, entails one executing agency with the capacity to work in multiple sectors.²
- 2.2 The second, Multisector Modality II, involves having several executing agencies each preparing and executing projects in their respective sectors. Projects in each sector involved contribute to the achievement of the multisector program's objectives. In this case, the Credit Line also counts with a national (such as a Planning or Finance Ministry) or subnational government's liaison institution which coordinates the entire program to ensure that the multisector program objectives are achieved.³ Multisector Modality II may be used where the CCLIP's development objectives are maximized by financing projects in a number of diverse sectors.⁴
- 2.3 Projects financed under the CCLIP can be investment loans or guarantees to support investment projects, either independent or dependent of one another. The Credit Line and the operations under the CCLIP (in each sector, in the case of multisector CCLIPs) shall be processed for approval in accordance with the Approval Procedures for Sovereign Guaranteed Operations (GN-1838-3) as reviewed and/or amended from time to time.
- 2.4 The CCLIP could be financed from the Bank's Ordinary Capital (OC) or other sources of financing.
- 2.5 The approval of the Credit Line will not result in a commitment of resources by the Bank until the individual operations are approved by the Board and the corresponding agreements have entered into effect. The credit fee and guarantee fee, therefore, only apply once an individual operation under the Credit Line has its agreement signed (i.e. the credit or guarantee fee is not paid on the entire Credit Line, but rather on the undisbursed balance corresponding to the individual operations). The remaining, uncommitted portion of the Credit Line does not tie up

² This was the case of the Chilean Program for Support of Sub-national Management (CH-L1018).

³ An example of this multisector approach could be a program with a poverty alleviation objective. To accomplish this objective, numerous sectors/areas such as cash transfer, education, health, would be involved. The CCLIP is administered by the liaison institution.

⁴ As in the Program to Support the National Early Childhood Plan and the Policy for Universalization of Early Childhood Education (AR-L1254).

any of the unused OC lending authority, and hence does not “crowd out” other loans seeking to immediately use such authority. Likewise, in the case of concessional OC resources, the remaining, uncommitted portion of the Credit Line does not tie up any of the unused concessional OC country allocation.

- 2.6 The approval of individual loan operations using OC or concessional OC resources will depend on the availability of these resources, within the Bank’s overall programming and financial constraints, for the period in question. Concessional OC individual loan approvals would also be subject to the respective country allocation.
- 2.7 The CCLIP instrument may be used to support the countries of the Region in longer-term and complex programs where there is a need for a series of operations that are necessary to achieve the expected development objectives.
- 2.8 The CCLIP may also be used to lend to sub-national entities backed by a sovereign guarantee. This may involve a CCLIP in a specific sector or sectors, in which the CCLIP framework is agreed upon between the Bank and the respective national government counterpart, but the individual loan operations are executed by different entities at the sub-national level.
- 2.9 Likewise, the CCLIP could be used to provide long-term support of a far-reaching investment program, which by its nature and complexity requires more than one project cycle to complete, and therefore serve as an umbrella for a series of dependent individual loan operations each of which builds on the previous ones under the CCLIP in supporting the objectives set in the overall framework.

III. Operational Aspects

1. Eligibility Criteria

- 3.1 The approval of the Credit Line is subject to specific eligibility criteria, which will need to be demonstrated in the Credit Line proposal. These criteria apply to CCLIPs directed to both national and sub-national entities. In order to ensure that these criteria continue to be complied with throughout the life of the Credit Line, individual operations financed under the Credit Line will also need to demonstrate that they fulfill such 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

- 3.2 For a Credit Line to be granted to a Borrower,⁵ the objectives of the Credit Line

⁵ Borrower could be any member country that assumes liability on its own general responsibility, as well as its political subdivisions, such as states, provinces, municipalities, and the like, which require a member-country guarantee (OP-301). For the purposes of the CCLIP instrument, the term Borrower shall include guaranteed debtors/obligors.

must be within the priorities defined in the respective country strategy with the IDB Group.

- 3.3 In the case of dependent sequential operations to be financed under the Credit Line, the CCLIP Proposal shall include the milestones deemed critical to be achieved in order to process and approve the second and subsequent individual operations. The milestones shall reflect the sufficient advancement in the implementation of each dependent sequential operation based on its specific objectives.
- 3.4 For CCLIPs using Multisector Modality II, with multiple sectoral executing agencies and one government's liaison institution, in addition to the requirement mentioned in the preceding paragraph, the liaison institution must have the authority to coordinate and monitor the general operational program of all sectors included in the Credit Line to ensure that it is on track to meeting its multisector objectives. This will involve tracking the results of the individual sector operations and undertaking the necessary adjustments to the CCLIPs investment program.

b) Individual Loan Operations under a CCLIP

- 3.5 For an individual loan operation to be financed under the Credit Line, it needs to comply with the following criteria:
 - i. An analysis of the institutional capacity of the proposed executing agency or agencies must be performed; In this analysis, the institutional capacity of the proposed executing agency or agencies is assessed, and any areas for improvement, as well as potential risks, if any, are identified. Such institutional capacity assessment should be implemented via the Bank's applicable mechanism⁶ and may be either simplified or complete, according to the following scenarios and as specified in the corresponding guidelines to this Policy:
 - Simplified assessment: for an executing agency that either has completed within the last five years or is executing one similar project financed by either the IDB, other multilateral institutions, or by a national or sub-national development institution in the corresponding country, in at least one of the sectors for which the Credit Line is being requested, and for which its overall execution performance and progress in achieving expected results have been satisfactory;⁷ or
 - Complete assessment: for an executing agency that has not completed,

⁶ The Institutional Capacity Assessment Platform for Sovereign Guaranteed Operations (ICAP) or any equivalent mechanism Management replaces the ICAP within the future.

⁷ Sources used for this assessment include the regular reports generated by the Bank's monitoring and evaluation system, such as the Progress Monitoring Report (PMR) in the case of operations disbursing. The Project Completion Report (PCR) will be the source for this assessment for operations already closed.

within the last five years, nor is executing one similar project in at least one of the sectors for which the Credit Line is being requested; or if the overall execution performance and progress in achieving expected results have not been satisfactory; as well as, for Project Executing Agencies (PEU) or agencies established or created exclusively for purposes of executing the project, for which their governing bodies and technical staff are constituted by personnel with previous experience in the implementation of similar programs financed by either the IDB, other multilateral institutions, or by a national or sub-national development institution in the corresponding country.

- ii. The objective of each individual loan operation contributes to the achievement of the sector or multisector objectives of the Credit Line;
- iii. The individual loan operation falls under the sectors and components defined under the Credit Line;
- iv. The Loan Proposal of each individual loan operation financed under the CCLIP shall include the actions that should be applied in the areas of improvement as identified by the institutional capacity assessment;
- v. For the second and subsequent operations:
 - a. The analysis of the institutional capacity of the executing agency or agencies must be performed according to the simplified assessment mechanism. In the case of a CCLIP under Multisector Modality II, such requirement will apply to the respective sector the individual loan operation refers to.
 - b. The Loan Proposal of the second and subsequent operations under the Credit Line shall report on the progress in implementing the actions applied in the areas of improvement identified in the institutional capacity assessment of the previous operation(s). In the case of a CCLIP under Multisector Modality II, this condition will apply to specific operations of each executing agency in its respective sector.
 - c. The execution performance of the previous or on-going operation under the Credit Line is satisfactory,⁸ and its development objectives are likely to be achieved.
 - d. The Loan Proposal of the second and subsequent operations under the Credit Line shall include an evidence-based readiness assessment to justify the development of the new operation; this

⁸ This will be determined according to the applicable mechanism to assess the progress performance of sovereign guaranteed investment operations. As mentioned before, sources used for this assessment include the regular reports generated by the Bank's monitoring and evaluation system, such as the PMR and the PCR. In the case of guarantee operations, this will be determined according to the progress reported in the available monitoring and completion reports, such as the PMR and the PCR.

assessment shall describe the overall implementation status of the previous operation, including the analysis of the environmental and social safeguards performance. In the case of a CCLIP under Multisector Modality II, this condition will apply to specific operations of each executing agency in its respective sector.

- e. In the case of dependent sequential operations, the readiness assessment shall include a compliance evaluation of the milestones deemed critical to be achieved in order to process and approve the second or subsequent individual operations, as set forth in paragraph 3.3 herein. Any modification to these milestones will need to be duly justified. In the case of a CCLIP under Multisector Modality II, this condition will apply to specific operations of each executing agency in its respective sector.

- 3.6 Additional criteria for processing the second and subsequent individual operations may be established in the corresponding Credit Line Agreement.

2. Processing, Approval and Execution Procedures

- 3.7 The processing, approval and execution of CCLIP operations would entail two sets of activities: (a) the approval 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 thereunder would be the responsibility of the respective Project Team.

a) Credit Line

- 3.8 The CCLIP is the result of the continuous dialogue between the Bank and its borrowing member countries, as well as of the process of identification of operations. When the relevance of a CCLIP has been identified, the Borrower must formally present a request to the Bank for a Credit Line. Once it has been established that the requested Credit Line complies with the eligibility criterion (or criteria, in the case of Multisector Modality II), the Project Team, in conjunction with the corresponding country authorities, will proceed to prepare the Credit Line proposal.
- 3.9 The Credit Line proposal shall include a solid diagnosis of the sector or multi-sector development challenges that need to be addressed.⁹ The modality of the CCLIP (if multisector), the eligible sector or multisector objectives, as well as the sectors and components included in the Credit Line should be specified. An indication should be included of whether the Credit Line would finance loans, issue guarantees, or both. Also, the Credit Line's maximum amount and the period of utilization of the Credit Line need to be specified and justified taking into account

⁹ This diagnosis can be provided by the Bank's Country Development Challenges (CDC) or an external study provided by the government.

the number of individual projects expected to be financed through the Credit Line, and the estimated execution period of each individual project.

- 3.10 The Bank's processing and approval of the Credit Line will be similar to that of investment operations.¹⁰ After the CCLIP has been approved by the Board, the Borrower and the Bank shall enter into a Credit Line Agreement, establishing the Credit Line and specifying its maximum amount, the proposed executing agency or agencies, the liaison institution (in the case of a Multisector Modality II CCLIP), and the corresponding eligible sectors and components, as well as general conditions and procurement rules.

b) Individual Loan Operations under the CCLIP

- 3.11 The individual loan operations financed under the Credit Line will form part of the regular country programming process of the Bank; and will be processed for approval following the Bank's Procedures for Processing Sovereign Guaranteed Operations approved by the Bank's Executive Vice President, as well as the Bank's Approval Procedures for Sovereign Guaranteed Operations (GN-1838-3).¹¹
- 3.12 The difference from stand-alone investment projects lies in shortening both the loan preparation and approval process. The second and subsequent operations will not require a Project Profile (PP).¹² Once the Loan Agreement is negotiated, the resulting Loan Proposal (LP) will be sent to the Board of Directors for approval by non-objection procedure. However, if the Bank classifies the operation as Category A for Environmental and Social Risk, the Board of Directors will consider the LP by standard procedure. The individual loan operation will then be formalized by signing the corresponding Loan Agreement between the Borrower and the Bank, pursuant to the Credit Line Agreement.
- 3.13 The more streamlined procedures for the individual loan operations under the Credit Line are expected to significantly reduce the time and cost of the loan approval process. In addition, in some countries the approval of a Credit Line obviates the need for legislative ratification of each individual operation under the CCLIP, thus also representing a timesaving between approval and execution of the operations.
- 3.14 Each individual operation under the Credit Line will be recorded as a new operation. The execution of all projects will follow the standard Bank policies, norms and procedures for investment operations, including Procurement, Financial Management, Environmental and Social Safeguards, and Macroeconomic Safeguards.

¹⁰ Per the Bank's Approval Procedures for Sovereign Guaranteed Operations (GN-1838-3), as reviewed and/or amended from time to time.

¹¹ In both cases, as reviewed and/or amended from time to time.

¹² Prior to the analysis mission, the project team will need to consult with the appropriate ESG members on the project-specific environmental issues that might arise from the strategic impact assessment undertaken when the Credit Line was created.

IV. Guarantees supporting investment projects financed under a CCLIP

- 4.1 As mentioned before, guarantees supporting investment projects can be issued under a CCLIP. Guarantees may catalyze investments that would otherwise not take place because of perceived political and credit risks, providing the opportunity to unlock private investments in conditions in which the markets create equilibriums characterized by credit rationing; and thus, contribute to achieving long-term sector and multisector strategic objectives in the countries of the Latin American and the Caribbean Region.
- 4.2 For a guarantee supporting investment projects to be issued under the Credit Line, it needs to comply with the following criteria:
- i. An analysis of the institutional capacity of the proposed executing agency or agencies must be performed via the Bank's applicable mechanism¹³ and may be either simplified or complete, according to paragraph 3.5 (i) scenarios and as specified in the corresponding guidelines to this Policy.
 - ii. The objective of each guarantee operation contributes to the achievement of the sector or multisector objectives of the Credit Line;
 - iii. The guarantee operation falls under the sectors and components defined under the Credit Line;
 - iv. The Guarantee Proposal of each guarantee operation issued under the CCLIP shall include the actions that should be applied in the areas of improvement as identified by the institutional capacity assessment;
 - v. For the second and subsequent operations:
 - a. The analysis of the institutional capacity of the executing agency or agencies must be performed according to the simplified assessment mechanism. In the case of a CCLIP under Multisector Modality II, such requirement will apply to the respective sector the guarantee operation refers to.
 - b. The Guarantee Proposal of the second and subsequent operations under the Credit Line shall report on the progress in implementing the actions applied in the areas of improvement identified in the institutional capacity assessment of the previous operations. In the case of a CCLIP under Multisector Modality II, this condition will apply to specific operations of each executing agency in its respective sector.

¹³ The Institutional Capacity Assessment Platform for Sovereign Guaranteed Operations (ICAP) or any equivalent mechanism Management replaces the ICAP with in the future.

- c. The execution performance of the previous or on-going operation under the Credit Line is satisfactory,¹⁴ and its development objectives are likely to be achieved.
 - d. The Guarantee Proposal of the second and subsequent operations under the Credit Line shall include an evidence-based readiness assessment to justify the development of the new operation; this assessment shall describe the overall implementation status of the previous operation, including the analysis of the environmental and social safeguards performance. In the case of a CCLIP under Multisector Modality II, this condition will apply to specific operations of each executing agency in its respective sector.
- 4.3 Guarantees supporting investment projects issued under the Credit Line will also form part of the regular country programming process of the Bank. They will be processed and approved following the Bank's Policy for a Flexible Guarantee Instrument for Sovereign Guaranteed Operations and its Guidelines (GN-2729-2 and GN-2729-4), and the Bank's Approval Procedures for Sovereign Guaranteed Operations (GN-1838-3).¹⁵

V. Financial Conditions

- 5.1 As indicated above, approval of a Credit Line does not require the commitment of lending authority resources by the Bank but represents the maximum total amount under which the individual operations 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 and the respective legal agreements are entered into.
- 5.2 The standard financial conditions (e.g., lending rate, credit, inspection and supervision fees, and grace and amortization periods) of each investment loan or guarantee set for in the corresponding applicable instrument policies will be applied to each individual operation, depending on the instrument that will be financed under the Credit Line.

VI. Monitoring and Evaluation

- 6.1 Performance monitoring and evaluation play a key role since the approval of the

¹⁴ This will be determined according to the applicable mechanism to assess the progress performance of sovereign guaranteed investment operations. As mentioned before, sources used for this assessment include the regular reports generated by the Bank's monitoring and evaluation system, such as the PMR and the PCR. In the case of guarantee operations, this will be determined according to the progress reported in the available monitoring and completion reports, such as the PMR and the PCR.

¹⁵ In all cases, as reviewed and/or amended from time to time.

individual operations to be financed under the Credit Line is subject to the institutional capacity assessment of the executing agency or agencies. Likewise, all individual projects under the Credit Line need to be evaluated before a subsequent project can be approved, as set forth in this Policy. For CCLIPs under Multisector Modality II, this condition applies to the specific project under each individual executing agency.

- 6.2 The institutional capacity of the executing agency will be continuously monitored to ensure good performance. Finally, the evaluation requirements to implement the Credit Line will contribute to strengthen the evaluation capacity of the executing agency and the government's liaison institution for multisector CCLIPs.
- 6.3 For CCLIPs under Multisector Modality II, the role of the liaison agency is to track and assess the achievement of the CCLIP's multisector objective. A series of multisector outcome indicators agreed between the Bank and the liaison agency, prior to the approval of the Credit Line, are used to assess the achievement of these objectives at completion. As in other operations, the individual operations under the Credit Line have their own results matrix and the sectoral executing agency is responsible to monitor and evaluate the achievement of the individual project's objectives. At the end of project execution, the liaison agency will be provided with the outcomes of the project and an assessment as to the extent to which the outcome indicators targets were achieved. This information will serve as input to the liaison agency to track progress towards the multisector objectives and to make the necessary adjustments to the CCLIP's investment program to attain its objectives.
- 6.4 Each individual operation under the Credit Line will follow all Bank procedures regarding monitoring and evaluation. It is critical that the executing agency or agencies and the liaison 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 is in place during execution.