

Document: EB 2018/125/R.38
Agenda: 5(h)
Date: 31 October 2018
Distribution: Public
Original: English

E



Proposal for Faster Implementation of Project Start-up Instruments

Note to Executive Board representatives

Focal points:

Technical questions:

Jill Armstrong
Director, a.i.
Operational Policy and Results Division
Tel.: +39 06 5459 2324
e-mail: j.armstrong@ifad.org

Ruth Farrant
Director
Financial Management Services Division
Tel.: +39 06 5459 2281
e-mail: r.farrant@ifad.org

Dispatch of documentation:

Deirdre McGrenra
Chief
Governing Bodies
Tel.: +39 06 5459 2374
e-mail: gb@ifad.org

Executive Board – 125th Session
Rome, 12-14 December 2018

For: Approval

Contents

Abbreviations and acronyms	ii
Recommendation for approval	1
I. Introduction and Context	1
II. Lessons learned and analysis	1
III. Description of FIPS instruments	2
A. Project pre-Financing Facility	3
B. Technical Assistance for Project Start-up Facility	6
IV. Expected results, impact and benefits of FIPS	6
V. Conclusion and way forward	7
Appendices	
I. Lessons learned from IFAD experience and other multilateral development banks	1
II. Estimated demand for FIPS funds	4
III. FIPS Results framework	5

Abbreviations and acronyms

AsDB	Asian Development Bank
DSF	Debt Sustainability Framework
FFA	financing facility agreement
FIPS	Faster Implementation of Project Start-up
IDA	International Development Association
IDB	Inter-American Development Bank
LIC	low-income country
MDB	Multilateral Development Bank
MFS	(country with the) most fragile situation
PBAS	performance-based allocation system
PFF	Project pre-Financing Facility
PMU	project management unit
PPF	Project Preparation Facility (World Bank)
SIDS	small island developing states
SOF	Special Operations Facility
TAPS	Technical Assistance for Project Start-up Facility

Recommendation for approval

The Executive Board is invited to approve the establishment of two new instruments for the faster implementation of project start-up:

1. The Project pre-Financing Facility (PFF) described in paragraphs 9-22;
2. The Technical Assistance for Project Start-up Facility (TAPS) described in paragraphs 23-25.

Proposal for Faster Implementation of Project Start-up (FIPS) Instruments

I. Introduction and context

1. The 2030 Agenda for Sustainable Development (2030 Agenda) includes specific targets for ending rural poverty and hunger. IFAD's contribution to the 2030 Agenda and the Sustainable Development Goals will largely be shaped during the Eleventh Replenishment of IFAD's Resources (IFAD11). A key message of the IFAD11 Consultation was that "business as usual" will not be sufficient to achieve the Goals. The IFAD11 reforms provide for the streamlining of business processes in order to shorten the project design process while improving quality from the very start of implementation. To this end, Management undertook to submit to the Executive Board "a proposal ... for the creation of a project preparation advances facility to facilitate borrowers' leadership role in project preparation and expedite implementation readiness. This will include a mechanism to provide more substantial project preparation, start-up and implementation support to LICs [low-income countries] and MFS [countries with the most fragile situations], whether directly by IFAD or by partners."¹
2. The proposal for Faster Implementation of Project Start-up (FIPS) instruments has been developed in response to recommendations based on a number of evaluations and an audit report on the efficiency of the project design process which identified the need for additional support to facilitate implementation readiness without overburdening the project design process. The 2018 corporate-level evaluation of IFAD's financial architecture resulted in a recommendation that more resources be invested in project preparation and that steps be taken to promote strong country ownership, implementation capacity and preparedness. For countries with fragile situations, one of the recommendations presented in the 2017 Annual Report on Results and Impact of IFAD Operations was to enhance implementation support during project start-up for projects deemed to be at risk.

II. Lessons learned and analysis

3. There are many reasons for start-up delays in different countries and regions, and there are a number of special challenges for LICs, MFSs and small island developing states (SIDS) and other small states. In particular, there are often delays in the fulfilment of mandatory conditions before disbursement can begin. These conditions vary, but usually include the establishment of a project management unit (PMU), appointment or recruitment of project management staff, IFAD's approval of the first annual workplan and budget, preparation of the first procurement plan and related bidding documents, finalization of the project implementation manual and procurement of accounting software.

¹ See paragraph 75 of the Report of the Consultation on the Eleventh Replenishment of IFAD's Resources (GC 41/L.3/Rev.1).

4. An analysis of IFAD's existing and past instruments for overcoming these challenges is summarized in appendix I, together with the main lessons learned.

III. Description of FIPS instruments

5. This document presents two distinct and complementary FIPS facilities which are designed to accelerate project start-up and improve implementation readiness by building on the Fund's own experience and the experience of other multilateral development banks (MDBs).²
6. IFAD proposes to establish two new instruments:
 - (i) The Project pre-Financing Facility (PFF) is based on the concept of advance fund access in order to provide liquidity early on in the project cycle so that activities can be initiated and funded prior to the entry into force of the financing agreement (as part of the project design). PFF funds would be managed by the borrower based on a pre-financing agreement signed by the borrower and IFAD that would have the same fiduciary requirements and terms and conditions as IFAD loans. Eligibility would be limited during the pilot phase to borrowers with a current allocation under the performance-based allocation system (PBAS).
 - (ii) The non-reimbursable Technical Assistance for Project Start-up Facility (TAPS) would finance specific activities to support project implementation capacities at start-up. Only LICs, SIDS, other small states and MFSs would be able to access TAPS. TAPS-funded activities would be implemented and managed by IFAD or the grant recipient in line with existing policies and guidelines.
7. Review of instruments: It is proposed that a review be performed after three years (or earlier if requested) to assess the use and effectiveness of these instruments and to report back to the Executive Board together with any proposal for changes, for example in scope, modality, eligibility and ceilings. This will be based on the experience in IFAD11.

² See appendix I: Lessons learned from IFAD's experience and other multilateral development banks.

8. Table 1 below provides an overview of the main differences between PFF and TAPS:

Table 1
Main characteristics of the PFF and TAPS

	PFF	TAPS
Overall ceiling	US\$70 million as total current pre-financing in IFAD11	US\$20 million in IFAD11
Eligibility	Only countries with loan financing in current PBAS allocation	Only for LICs, SIDS, other small states and MFSS
Source of funding	PBAS	Supplementary funds
Financing terms	Prevailing financing terms	Not applicable – grant
Eligible activities	Start-up and project preparation activities, including: Baseline and feasibility studies Social, Environmental and Climate Assessment Procedures and studies related to cross-cutting thematic areas PMU staff recruitment First annual workplan and budget Procurement plan Project implementation manual Establishment of monitoring and evaluation and fiduciary systems and reporting Procurement of goods and services required for project start-up	Implementation-readiness capacity support and technical assistance in setting up required operational and fiduciary systems, including those shown under the PFF
Individual ceilings	Minimum US\$0.5 million up to US\$1.5 million	Up to US\$0.5 million
Execution	By borrower	By IFAD or recipient
Legal agreements	Pre-financing legal agreement	Legal agreements as required for supplementary funds (donor agreement and grant agreement/contract)
Approval process	Concept note stage once the project is approved for entry into the pipeline or later on request from borrower Specific request from the borrower specifying the intended use of funds and related budget Timing not to be less than six months from the expected approval of the related financing agreement	Concept note stage once the project is approved for entry into the pipeline Specific request from the recipient specifying the intended use of funds and related budget Timing not to be less than six months from the expected approval of the related financing agreement
Approved by	President	In accordance with IFAD procedures for supplementary funds.

A. Project pre-Financing Facility (PFF)

9. The PFF would provide borrowers with advance access to funds included in a future related project loan so that projects would have sufficient liquidity to begin preparation activities prior to approval and entry into force of the future financing agreement (as part of the project design). Eligibility would be limited to borrowers with a current PBAS allocation. The PFF design is based on the instrument used for the World Bank's Project Preparation Facility and the experience gained from that initiative.³ A major difference between that facility and the PFF is that the latter's advance funds would be treated to all intents and purposes as actual loan financing rather than as a receivable.⁴ The PFF mechanism would entail an advance disbursement in the form of a one-off payment to a bank account designated by the borrower based on the budgeted costs of the related activities and would have an implementation period of up to two years. It would be repaid immediately after the financing for the related project loan became available or, in the event that no financing materializes, it would be wholly repayable within six months from the closure date of the PFF. Failure to repay the advance would trigger the use of the remedies provided for in IFAD's General Conditions for Agricultural Development Financing. PFF activities would be an integral part of the project and its costs. All activities pre-financed under the PFF would be executed by the borrowing country.

³ For further details, see appendix I.

⁴ The World Bank facility defers interest and service charges to the subsequent financing operation.

The cost categories for funds budgeted and spent would be reflected in the related refinancing instrument.

10. The PFF would be available, in principle, to all borrowing countries with a PBAS allocation for IFAD11 and would be refinanced from the related project loan. The borrower would be expected to indicate formal interest in this instrument at the start of the design process or, in any case, more than six months prior to the expected loan financing approval date. Given that there are ongoing discussions on the Debt Sustainability Framework (DSF) instrument and that a formal review by the Executive Board is to take place in the next few months, and in the light of the financial sustainability considerations highlighted by the corporate-level evaluation of IFAD's financial architecture, the initial pilot of this new instrument would, for the time being, exclude countries that have only DSF financing. The purpose of doing so would be to avoid any further build-up of the DSF burden on IFAD's financial sustainability by increasing the net present value of related interest. This would allow the new instrument to be launched earlier on, after which experience can be gained and drawn upon at a later date. This would not prevent the countries concerned from taking their full DSF allocations once conditions permit. This exclusion could be reviewed as soon as the relevant governing bodies have decided on the best way forward with regard to DSF based on all the relevant factors, including financial sustainability considerations. Countries which are partly eligible for DSF financing could opt to use this new instrument for the loan financing portion of the operation. It is expected that, in virtually all cases, the countries that would not be eligible for this instrument would be eligible for TAPS on the basis of their low-income and/or fragile status.
11. The Executive Board will be invited to approve an overall PFF ceiling of US\$70 million in IFAD11. This ceiling is based on the estimated demand for PFF funds⁵ and defined as the total portfolio of all active PFF transactions at any given moment.
12. Activities to be financed. The PFF would support borrowers in identifying and addressing sector-specific challenges, mitigating environmental, social and climate risks, and accelerating preparatory activities for project start-up. Such activities are important in generating high-quality technical designs and setting up efficient operational and fiduciary systems. It would finance start-up activities that promote faster implementation and that would have to be completed prior to entry into force of the related financing agreement, as shown in table 1.
13. Legal and fiduciary considerations. This instrument would, for all intents and purposes, constitute a financing agreement which replicates the terms and conditions of the loan instrument. For this reason, the Executive Board would be asked to delegate its authority to the President of IFAD to establish PFF instruments based on the criteria and monetary limits noted herein.
14. Due to the nature of this instrument, no changes would need to be made in the Policies and Criteria for IFAD Financing in order to set it up. However, in view of the administrative procedures involved, including negotiations with the borrower, it is suggested that, even if the amount of funding is reduced in scope, there be a minimum ceiling of US\$0.5 million.
15. IFAD's standard fiduciary practices would be applied, including adherence to its procurement and audit guidelines. In the case of external audits, specific reference should be made by the auditors to the PFF expenditures as part of the project accounting and reporting procedures. Expenditures not made in that reporting year would be reported in subsequent periods as part of the related project financing agreement, and the specific source of funding would be identified. This would be

⁵ For further details, see appendix II.

required even if all the financing systems are not in place, so borrowers would be expected to have full supporting documentation for this purpose. Cases of non-compliance would trigger the remedies set out in IFAD's General Conditions for Agricultural Development Financing.

16. Financing terms and conditions. The PFF would have the same financing terms as those attributed to the country under the PBAS allocation. Accordingly, interest and/or service charges would accrue on the disbursement, as applicable, since it would be a cash advance on the related project loan rather than a grant.
17. Moreover, the financing terms would ultimately be based on the terms in effect for the related project loan, in the interest of fairness and consistency for all borrowers. This means that, although the current financing terms would be applied to the PFF, repayment would be made against the related project loan once it was in place, and any necessary adjustment would then be made. In addition, the choice of the currency in which the PFF would be denominated would dictate the currency of the related project loan.
18. The period of implementation for the PFF would be up to two years, with simultaneous completion and closing dates. The completion reporting requirement for standard financing would be waived on the condition that the refinancing had occurred. Given that IFAD aims to have a maximum period of eight months between the concept note approval and Executive Board approval and reduce to 12 months the time from Executive Board approval to first disbursement, the two-year period is deemed to be ample, while leaving some room for flexibility in the event of unforeseen delays.
19. Implementation of changes: risk management and administration. There would be a risk that borrowers might not repay the advance in a timely fashion. To mitigate this risk, the period for repayment would be set at a maximum of six months following the closing date of the PFF. It is considered that this relatively short repayment period would be achievable and would not create financial difficulties for the borrower given that the funds would be made available for this specific purpose and should not be used for other purposes.
20. The risk that the related project loan might not materialize is deemed to be relatively low. (Only seven concept notes were approved for entry into the pipeline between 2014 and 2017 that did not subsequently result in the submission of a project for approval to the Executive Board, which amounts to 5 per cent of all approved projects and 3 per cent of loan approvals.)
21. IFAD will develop the related procedures in preparation for the instrument to enter into effect on 1 January 2019. A number of business processes, such as loan administration, accounting and other systems, will need to be updated. A particular focus of attention will be the downstream impact on IFAD's financial systems, including the fair value impairment tool, the International Financial Reporting Standards (IFRS 9) expected credit loss tool, financial modelling reporting and other risk management analyses. IFAD will also adjust related communication, administration and management procedures, manuals and processes and will ensure that internal and external capacities are built and maintained. In order to accommodate the new instrument and, in particular, the refinancing element for the subsequent financing, a customized component will be required in IFAD's corporate systems. This will ensure full automation of related accounting entries and related reports so that manual inputs and overrides will not be necessary.
22. Individual and cumulative PFF ceilings.⁶ IFAD will establish criteria for determining the commitment for each individual PFF based on cost estimates. The

⁶ More details can be found in appendix II.

proposed individual ceiling per project is US\$1.5 million, with a minimum threshold of US\$0.5 million. The Executive Board will be invited to approve an overall PFF ceiling of US\$70 million for IFAD11. This ceiling is based on the estimated demand for PFF funds and defined as the total portfolio of all active PFF at any given moment. The demand estimates also include countries with ratification processes, as although some borrowers may not be able to use this instrument in the short term, it is expected that borrowers will expedite such processes so as to be able to utilize the PFF instrument. Moreover, IFAD will continue to enhance its knowledge of country systems with its more decentralized workforce and will work with borrowers to try to advance the signing of IFAD financing agreements in their ratification processes.

B. Technical Assistance for Project Start-up Facility (TAPS)

23. TAPS will comprise non-reimbursable technical assistance aimed at increasing implementation-readiness support for project start-up capacities. Only LICs, SIDS and other small states and MFSs will have access to TAPS. This facility will finance project preparatory activities linked to the recruitment of staff and compliance with disbursement condition requirements – areas in which there is often a lack of on-the-ground support that leads to start-up delays. While the PFF would provide resources to ensure readiness prior to financing approval, TAPS would support implementing entities by providing direct support in setting up required operational and fiduciary systems.
24. Based on a detailed analysis, cost estimates⁷ indicate that there could potentially be a demand for US\$20 million in IFAD11 for TAPS financing. The maximum individual ceiling would be set at US\$500,000. IFAD would determine the criteria to be used in establishing the ceiling applicable to individual TAPS. These criteria would be based on a project's risk profile and an assessment of requirements for additional studies and on-the-ground support. It should be noted that the allocation of these resources would be subject to the availability of funds. Recipients would indicate their interest in this instrument at the start of the design process. In the event that the available funding is limited, priority would be given to projects with immediate absorption capacity that are ineligible for the PFF.
25. Funding source: Many different potential sources of funding for this instrument were considered, including cancelled funds, administrative budgets and grant resources. After an extensive analysis that took into account both IFAD's financial sustainability and the intended purpose of grant resources, Management proposes supplementary funds would be the most suitable source of funding. This approach has been used very successfully in the past to channel funding for specific projects, countries and thematic topics, and it can easily be employed in a flexible manner so as to accommodate the need for this instrument. Supplementary funds can be pooled to facilitate more efficient administration and funding for a collective purpose, such as in this case. Normally, an administrative fee of up to 7 per cent is charged to cover IFAD overhead costs. In this case, it is proposed that the management fee should be 5 per cent. Given that the effectiveness and sustainability of this instrument would depend on this funding, IFAD would encourage Member States to commit speedily to making use of this facility.

IV. Expected results, impact and benefits of FIPS

26. Expected results. FIPS instruments are expected to reduce time lags in project start-up and implementation, improve disbursement rates and decrease the number of "problem projects". These improvements would lead to improved portfolio quality, fiduciary compliance and disbursement performance. Appendix III presents a results framework for tracking the impact of this instrument.

⁷ More details are provided in appendix II.

27. **Benefits:** Improved and inclusive delivery for beneficiaries. Combining technical assistance and pre-financing resources would bring IFAD into line with other MDBs. The TAPS and PFF would enable IFAD to provide hands-on support in resolving bottlenecks while ensuring the availability of the scale of funding needed to get activities going.
28. **Systems.** The availability of technical cooperation and liquidity for pre-financing can be instrumental in enabling countries to establish effective and efficient project implementation systems. These systems would facilitate the tracking of results needed to enhance IFAD's and Members States' capacity for development effectiveness.
29. **Country ownership and partnerships.** By supporting early engagement with project implementation units and reducing time during start-up, FIPS would enable IFAD to enhance ownership and delivery capacity at the country and project levels.

V. Conclusion and the way forward

30. These instruments would form part of a transformative package composed of IFAD's enhanced business model and greater responsiveness to borrowers and recipients. With the approval of these instruments, IFAD would be acting on its IFAD11 commitments to operationalize the enhanced business model and provide concrete solutions in response to borrowers' requests for more flexibility. It would also be a first step in building up its toolkit to increase the range of instruments it can offer to all Member States and, in particular, to LICs and fragile states.
31. This document will be presented to the Audit Committee in November 2018 for its review and endorsement and to the Executive Board in December 2018 for approval. If approved, these instruments would enter into effect on 1 January 2019.

Lessons learned from IFAD's experience and other multilateral development banks

I. IFAD experience

1. Over time, IFAD has used the following instruments to try to address these delays:
2. Special Operations Facility (SOF). From 1985 to 1994, through the Special Programme for Africa, IFAD provided SOF grants to cover project formulation, start-up and initial implementation expenditures. The SOF was subsequently transformed into financing facility agreements (FFAs), targeting countries that benefitted from highly concessional lending terms; FFAs were discontinued when IFAD started direct supervision. SOF and FFA grants were executed by IFAD.
3. Retroactive financing allows governments to pre-finance project-related expenditures upon – or just before – project approval, which are then reimbursed after disbursement conditions have been fulfilled. Start-up advances comprise funds that can be withdrawn immediately upon the entry into force of financing agreements to fund the establishment of project management units and other readiness activities pending fulfilment of disbursement conditions. Demand for retroactive financing has been low since borrowers/recipients normally cannot pre-finance activities without budget approval (which in turn depends on financing agreements). Used only in a minority of cases, start-up advances do not provide liquidity to finance expenditures for implementation readiness before entry into force of financing agreements.
4. Country-specific grants have been used to fund start-up activities. However, only "green" countries under the Debt Sustainability Framework (DSF)⁸ are eligible for country-specific grants.⁹ Given competing priorities and the limited availability of IFAD grant funds, country-specific grants are not an ideal instrument to address start-up delays.
5. The main lessons from these experiences are:
 - Country programme managers appreciated the flexibility of IFAD's use of grant resources for supporting implementation-readiness activities;
 - Retroactive financing does not provide liquidity to Member States before project entry into force, which is a crucial limitation in LICs and MFS;
 - Parliamentary ratification is an important cause of start-up delays;
 - Single PMUs coordinating all IFAD operations in a country reduces start-up delays by ensuring the continuity of project staff, management and systems.
6. None of the options listed above provide the scalability needed to promote faster implementation across the entire IFAD11 portfolio. The table below gives a comprehensive overview of all IFAD's current and past mechanisms for accelerating project start-up. The new design process internalized in 2018 foresees that preparatory activities will be completed as part of project design whenever possible, thereby shifting disbursement conditions into design requirements.

⁸ The DSF uses the debt-distress "traffic light" framework ("green", "yellow" and "red" countries) for determining repayment terms. If a country is "red" or "yellow", it is eligible to receive a grant or loans on blend terms.

⁹ The Corporate Level Evaluation of the IFAD Policy for Grant Financing (2014) recommended that, "All IFAD borrowers, rather than "green" countries only, should be eligible for grants. "Red" and "yellow" countries may also need grants to fund essential activities related to, for example, capacity-building ..." (paragraph 51).

Table 1
IFAD's experience with project start-up and project preparation

<i>Mechanism</i>	<i>Description</i>	<i>Effectiveness</i>	<i>Constraints</i>
Special Operation Facility (SOF)	<ul style="list-style-type: none"> Established in 1985 Special grants programme for implementation-readiness activities Ceiling of US\$100,000, in 1999 reduced to US\$60,000 Only for highly concessional loans 	<ul style="list-style-type: none"> US\$1.5 million spent on average each year for 15 to 20 SOF grants SOF funds were directly managed by IFAD The facility was appreciated by country programme managers Provided flexibility to improve implementation readiness 	<ul style="list-style-type: none"> Implemented before IFAD direct supervision Lack of administrative procedures and reporting Financed by supplementary funding, which is difficult to mobilize
Retroactive financing	<ul style="list-style-type: none"> Applies to expenditures to be incurred before entry into force of projects with Executive Board approval Amount not to exceed 10 per cent of financing Eligibility starting with project design date 	<ul style="list-style-type: none"> Not well known in IFAD Seldom used across the portfolio 	<ul style="list-style-type: none"> Does not provide liquidity prior to entry into force In-country regulations often do not allow loan proceeds to be used before projects' entry into force
Start-up advance	<ul style="list-style-type: none"> Can be used once financing agreement has entered into force Can finance expenditures to be incurred before the annual workplan and budget has been approved and other conditions have been satisfied Eligible activities include project implementation manuals, accounting software, procurement and staff recruitment 	<ul style="list-style-type: none"> Start-up advances have been used relatively little Average amount is US\$260,000 ranging from US\$10,000 to US\$600,000 No positive impact on speeding either first or second disbursements* 	<ul style="list-style-type: none"> Starts after entry into force Some countries do not request any start-up advance because of legal barriers Does not provide any liquidity to the project before approval Project preparation activities have been moved to the design phase
Country-specific grant	<ul style="list-style-type: none"> The purpose must be in line with the IFAD Policy on Grant Financing and is not specifically for project readiness Used to finance a component of a loan-funded investment projects in "green" countries under the performance-based allocation system (PBAS) Grant-approval process is part of the loan-approval process 	<ul style="list-style-type: none"> Three cases of country-specific grants used for project start-up have been identified Case studies have pointed to positive experiences with completing activities, but indicated limited effectiveness in speeding up time to first disbursement 	<ul style="list-style-type: none"> The main purpose of the Policy on Grant Financing is not project preparation The approval process is the same as that for the attached loan, which can be too lengthy for start-up activities Can only be used for a small fraction of IFAD "green" countries

* According to IFAD's study on disbursement performance.

II. Summary of benchmarking analysis with other multilateral development banks (MDBs)

- IFAD conducted a benchmark analysis to compare its mechanisms for facilitating project start-up with those of other MDBs. Other MDBs have project preparation facilities or technical assistance programmes in place to accelerate start-up and improve implementation readiness. In addition to a desk review, project-preparation experts from the World Bank, Inter-American Development Bank (IDB), Asian Development Bank (AsDB), Green Climate Fund and Global Environment Facility were interviewed.
- The World Bank's Project Preparation Facility (PPF) was established in 1976 as a revolving fund using capital from its programme of work to support speedy start-up of project activities. In 2017, the PPF ceiling was US\$750 million or about 2 per cent of the World Bank's lending programme. The agricultural sector receives the largest share of PPF funding. Approximately 87 per cent of PPF financing goes to International Development Association (IDA) countries; countries in Africa receive about 66 per cent. PPF funds are generally allocated at the regional level and from there to the countries within each region. The procedures for country-

level PPF allocation and approval can be completed rapidly. Pre-financing funds are used to finance project design and start-up; these initial expenditures are repaid by the borrower/recipient once the loan is effective and the first disbursement has been made. In addition, the World Bank has US\$250 million in technical assistance funds, of which about one third is used in IDA and International Bank for Reconstruction and Development countries; the greatest share is devoted to environment and climate activities.

9. In 2016, the AsDB approved US\$317 million through its technical assistance programme, representing 1.8 per cent of its programme of loans and grants. Approximately half of these funds were allocated to project preparatory work in low-income countries. AsDB manages these funds and there is no cost recovery. However, AsDB does not have pre-financing funds for accelerating project start-up.
10. IDB places special importance on technical assistance for project preparation. In 1989, IDB put in place a Project Preparation and Execution Facility (PROPEF), establishing a revolving credit line at country level.
11. The World Bank, IDB, AsDB and the Green Climate Fund provide substantial non-reimbursable technical assistance funding for project design as well as pre-project-effectiveness financing covering: technical studies; environmental, social and climate assessments; detailed feasibility work including pre-engineering studies; participation in national policy dialogue; the establishment of project management and execution systems; and funds for project staff recruitment and salaries.

Table 2
Overview of project-preparation facilities at other MDBs

<i>Institution</i>	<i>Type</i>	<i>Amount and terms</i>	<i>Source</i>	<i>Comments</i>
World Bank	PPF for design and start-up	US\$750 million repayable from loans provided in amounts between US\$5 million and US\$10 million	Earmarked at 2 per cent of lending programme with Board-approved ceiling	Good country demand; no Board approval; managed by borrowers; used in fragile situations and emergencies; about 87 per cent of funds to IDA countries
	Technical assistance funds for design	US\$250 million, provided in amounts up to \$1 million	Supplementary trust funds	Grant resources are declining; only 30 per cent used for IDA, mostly for environment and climate projects
AsDB	Technical assistance for design	US\$320 million in grants to member countries provided in amounts up to US\$1 million	Share of capital income and allocation from lending programme and Japan supplementary funds, along with cofinancing; 1.8 per cent of lending programme	Provided as a technical assistance grant procured and managed by AsDB, and allocated internally
IDB	PROPEF – line of credit at country level	US\$150 million repayable from loan in amounts up to US\$10 million over 10 years	Ordinary capital from lending programme	Board approves 10-year line of credit, from which advances can be drawn; used rarely; borrowers prefer technical assistance grants
	Technical assistance grants	US\$882 million approved in 2017; active grant financing portfolio in 2017; 1,633 operations of US\$2.1 billion	Ordinary capital and special funds	Substantial technical assistance funds for borrowers that are well appreciated by borrowers
Green Climate Fund	Grants and repayable grants	Total of US\$40 million made available for initial phase of PPF; each request subject to a cap of US\$1.5 million		

Estimated demand for FIPS funds

1. Project pre-Financing Facility (PFF) for faster implementation of project start-up cost estimate. World Bank experience has shown that financing facility advances should be large enough to cover early activities and to justify their management costs to IFAD and governments. Experience has also shown that countries facing disaster or coping with fragile situations may require very large initial advances. Since completing initial procurements early on is a critical element of reducing start-up delays, the funding must be enough to cover contract costs before any request for bids – particularly in countries where procurement can only be initiated when the availability of funds is confirmed.
2. A needs assessment has been conducted to estimate costs to cover for start-up and project preparation activities under PFF. The cost estimate suggests a range ceiling between US\$ 0.5 million and US\$ 1.5 million per project.

Table 1
Cost estimates for PFF
(United States dollars)

<i>Estimation</i>	<i>Full</i>	<i>Minimum</i>
Percentage share of annual PoLG	2	1.4
PFF ceiling	70 000 000	50 000 000

After 40 years of implementing its PFF and increasing the ceiling a number of times, the World Bank set the ceiling for its revolving fund at the equivalent of approximately 2 per cent of its work programme. Like the PFF, the PFF is not a stand-alone facility, but an advance facility with a requirement that any advances be refinanced from the related loan. The World Bank Board increased the PFF ceiling progressively with the increase in its lending programme. Applying this percentage share to the US\$3.5 billion programme of loans and grants (PoLG) for IFAD11, this would result in an overall ceiling of US\$70 million for PFF and provide an average pre-financing ceiling of US\$1.5 million per project. An average project pre-financing amount of US\$1 million would require a ceiling of US\$50 million.

3. Technical Assistance for Project Start-up Facility (TAPS) cost estimates. Only LICs, MFS and SIDS are eligible to access TAPS funding. Two TAPS cost scenarios have been developed on the basis of an IFAD11 PoLG of US\$3.5 billion. Under the "full" scenario, about 30 projects would be eligible as LICs, SIDs and MFS to access implementation-readiness support by TAPS during IFAD11. Under the "minimum" scenario, only projects to be financed under DSF terms during IFAD11 (i.e. 11 projects were considered). Under this "minimum" scenario, IFAD will need US\$ 6.8 million and under the "full" scenario, US\$20 million will be needed to cover TAPS requests. With a ceiling of US\$0.5 million for a single TAPS transaction, the total demand for IFAD11 should not exceed US\$20 million

Table 2
Cost estimates for TAPS
(United States dollars)

<i>Purpose</i>	<i>Full scenario</i>	<i>Minimum scenario</i>
Analytic and advisory services	8 500 000	2 800 000
Delivery capacity	11 500 000	4 000 000
Total	20 000 000	6 800 000

FIPS Results framework

Table 4

Result Indicator	Year 1	Year 2	Year 3	IFAD11 targets
Outcome at Portfolio level				
# 1 Number of projects using PFF* Number of projects using TAPS	6 – 8 4 – 11	6 – 8 4 – 11	6 – 8 4 – 11	Target #1: A total of 18 – 24 projects will use PFF and 12 – 33 projects will use TAPS by the end of IFAD11.
# 2 Reduced average time lag between EB approval and first disbursement	17 months	16 months	15 months	Target#2: Decrease by two months, from 17 months to 15 months between Executive Board approval and first disbursement by IFAD11, and to 12 months by IFAD12.
# 3 Increased disbursement rate of portfolio average **	33%	34%	35%	Target#3: Increase by 2% of disbursement portfolio average by the end of IFAD-11.
# 4 Decreased share of actual problem projects due to early implementation issues	28%	27%	26%	Target#4: Decrease by 2% of actual problem projects due to early implementation issues by the end of IFAD-11.

*Only green and yellow countries are eligible to access PFF.

** Only LICs, SIDS and small states and MFS.

*** IFAD currently uses the disbursement rate as a performance measure, defined as "the percentage disbursed of the net financing amount", as the main indicator for assessing disbursement effectiveness.

**** Project that are an *actual problem project*¹⁰ in their first three years of implementation, due to unsatisfactory rating of their overall implementation performance.

¹⁰ An actual problem project is defined when at least one of the following two indicators is rated unsatisfactory (below 3): 1. Assessment of overall implementation performance; 2. Likelihood of achieving the development objective.

Projects using PFF

1. The first indicator of the FIPS facilities is the actual use of the PFF itself. IFAD currently designs around 24 new projects per year in green and yellow countries. With the shift to design bigger projects, the total number of projects is expected to decrease per year. This means that 72 new projects in yellow and red countries will be designed by the end of IFAD11.
2. Portfolio-level Outcome Indicator #1: The target is that by the end of IFAD11, up to 30 per cent of new projects will use the FIPS, expecting between 18 - 24 projects accessing PFF and 12 – 33 accessing TAPS. This will be recorded in ORMS dashboards displaying number of project using PFF and/or TAPS.

Shorter time lags

3. The second expected result from the introduction of the FIPS facilities is the reduction of time lags between EB approval and first disbursement. As shown in IFAD's disbursement study, when time periods are shorter, loans disburse more consistently and quickly throughout the project's life.¹¹
4. Portfolio-level Outcome Indicator #2: The aim is to reduce the average time from project EB approval to first disbursement from 17 months to 12 months.¹² By the end of IFAD11, IFAD's portfolio will consist of 40 per cent new projects with 30 per cent requesting FIPS resources. Due to the portfolio composition, the target will be reached gradually. By the end of IFAD11, the time lag between EB approval and first disbursement is expected to be reduced to 15 months and a continuous decrease is expected beyond IFAD-11.

Improved disbursement rate

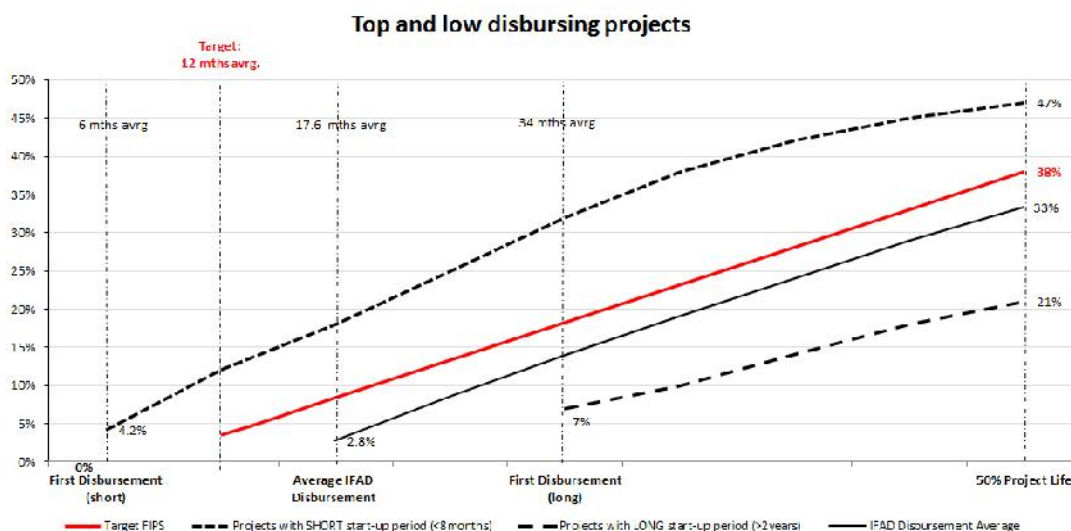
5. The key assumption underlying the FIPS results framework is that shorter time lags have a positive effect on the project and its disbursement rate performance, translating into better portfolio quality. This assumption is based on a portfolio analysis comparing historic disbursement rate of groups of projects with different start-up periods.
6. Graph 1. below shows that projects¹³ with a shorter project start-up period have on average a higher disbursement rate compared to projects with long start-up periods. Projects with short start-up (less than 8 months) disburse almost 50 per cent of the loan by the implementation's mid-point compared to only 21 per cent disbursement rate for projects with long start-up (more than 2 years). IFAD's current disbursement rate at mid-point is at 33 per cent.

¹¹ IFAD Disbursement performance, no 14 Research Series, 2016.

¹² Report of the consultation on the Eleventh Replenishment of IFAD's Resources: Leaving no one behind: IFAD's role in the 2030 Agenda, 16 January 2018 IFAD11/5/INF.2 para 17.

¹³ Projects which have been approved since 2010 and which are either closed, disbursable or expired.

Graph 1. Average disbursement rate by project start-up period



- Portfolio-level Outcome Indicator #3: The red line simulates the set target for FIPS to increase the overall IFAD disbursement average rate from the current 33 per cent up to 38 per cent at mid-lifecycle. This target will be reached gradually; it is expected to increase to 35 per cent by the end of IFAD11 and continuously beyond IFAD- to reach target.

Decrease of actual problem projects

- Projects with a longer start-up periods are more likely to be actual problem projects compared to projects with shorter start-up period. A portfolio analysis of the last ten years shows that around 28 per cent of all projects (69 out of 244) have turned into an actual problem project¹⁴ in their first three years of implementation, due to unsatisfactory rating of their overall implementation performance.
- Portfolio-level Outcome indicator #4: The aim of the FIPS is to improve implementation readiness of projects in the first years of the project cycle. Therefore, it is expected that FIPS will have a positive effect on preventing projects from turning into problem projects in the first three years of implementation. The portion of 28 per cent of problem projects on the overall portfolio will decrease by the end of IFAD11 down to 25 per cent.

¹⁴ An actual problem project is defined by one of the two indicators is in the unsatisfactory range (below 3) 1. Assessment of overall implementation performance and 2. Likelihood of achieving the development objective.