

Document: EB 2019/126/R.48/Rev.2  
Agenda 6(d)  
Date: 2 May 2019  
Distribution: Public  
Original: English

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Investing in rural people

## Proposals for Streamlining the Approval of IFAD-funded Projects and Programmes

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Executive Board — 126<sup>th</sup> Session  
Rome, 2-3 May 2019

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For: Approval

## Recommendation for approval

The Executive Board is invited to approve the following proposals for streamlining the approval of IFAD-funded projects and programmes, as reflected in paragraphs 14-22 and summarized in paragraph 23, as follows:

- (i) Improve the lapse-of-time (LOT) procedure by raising the funding threshold from US\$25 million to US\$40 million (inclusive) – excluding projects and programmes classified as "track 1" (high-risk operations), which would be presented in-session – and approve a reduction in the time required for approval of LOT proposals to 21 calendar days. The latter would require an amendment to rule 24 of the Rules of Procedure of the Executive Board.
- (ii) Delegate authority to the President to approve:
  - (a) proposals for additional financing to fill identified financing gaps<sup>1</sup> already approved by the Executive Board in projects and programmes and with a value of less than or equal to 50 per cent of the original IFAD financing approved by the Board. In cases where the original project received an abstention/objection at the time of approval, no delegation of authority would be granted;
  - (b) proposals for new projects with a value of US\$5 million and below; and
  - (c) additional financing for scaling up<sup>2</sup> totalling US\$5 million and below.

These proposals would not entail any changes to the President's current authority to approve grants up to US\$500,000 under the IFAD Policy for Grant Financing.

## Proposals for Streamlining the Approval of IFAD-funded Projects and Programmes

### I. Introduction

1. At the fourth Executive Board retreat in April 2018, representatives discussed how to improve Executive Board processes. Enhanced processes are a key way of ensuring both efficient and effective governance of IFAD and the oversight role of the Executive Board.
2. In response, Management has taken steps to address internal inefficiencies, introducing a differentiated approach to improve the efficiency of the project design and review process. In this process, IFAD-financed projects are assigned to one of three tracks, which determine the internal review and approval process to be followed.<sup>3</sup>
3. In a bid to enhance efficiency of the project design and review process even further, Management discussed proposals to streamline the approval of

<sup>1</sup> Financing gaps are defined as financing proposals in which the design, focus and implementation arrangements of a project have already been approved by the Board but for which IFAD regular resources are not yet secured. The President would only approve the proposal once the financing had become available through the performance-based allocation system.

<sup>2</sup> Scaling-up financing proposals are defined as: (i) opportunities to scale up operations where current project performance has been validated in line with operational and financial standards, and requested by the borrower; or (ii) the result of restructuring in line with IFAD's Restructuring Policy. Any scaling-up proposal that is deemed high risk as a result of a change in project location or component type, etc. (e.g. affecting compliance with SECAP) will be presented in-session.

<sup>3</sup> **Track 1: high-risk operations** – high-risk, complex, highly innovative or politically sensitive operations, and those classified as category A under IFAD's Social, Environmental and Climate Assessment Procedures (SECAP); **Track 2: regular operations**; and **Track 3: fast-track operations** – typically additional financing for operations that require filling a financing gap or top-up financing for scaling up operations; and operations to provide assistance in situations of crisis or emergency.

IFAD-funded projects and programmes with the Convenors and Friends on 31 August 2018. The Convenors and Friends welcomed these proposals and their submission to the Executive Board for approval at the 125<sup>th</sup> session in December 2018. The discussion was then deferred. An informal seminar was held on 29 March 2019 to move ahead with the discussion; this paper reflects changes discussed at that seminar.

4. The proposals contained herein maintain the importance of the Board's oversight of IFAD projects, as projects submitted to the Board, whether through the lapse-of-time (LOT) procedure or in-session, are subject to the review and approval of the Executive Board. Based on simulations of the 2019 pipeline, over 95 per cent of projects would still be approved by the Board (see annex).
5. Delegation of authority to the President is proposed for: (i) new or scaled-up projects with a value of less than US\$5 million; or (ii) projects already approved by the Board but in need of additional IFAD resources to fill an identified financing gap (up to 50 per cent of the original IFAD financing). Delegation of authority would not be granted for such projects if an objection/abstention had been raised at the time of approval. In such cases, the project would be submitted for Board approval.
6. The proposed changes would apply to all IFAD-funded project and programme proposals, except those classified as track 1 (high-risk operations). This means that proposals considered to be high risk, complex, highly innovative or politically sensitive, and those classified as category A under IFAD's SECAP, would continue to be submitted for approval by the Board at its regular sessions, regardless of the amount of financing.

## II. Lapse-of-time procedure

### A. Timeline

7. At its ninety-eighth session in December 2009, the Executive Board approved a proposal to streamline its approval process for IFAD-funded projects and programmes.<sup>4</sup> The aim of this initiative was to reduce the number of projects and programmes approved at Board sessions in order to free up time for discussion of strategic issues. The LOT procedure was adopted and applied to projects and programmes with total financing of up to US\$15 million that did not involve complex issues. In the absence of a request from an Executive Board representative for the item to be discussed at the next Board session, Board approval would be assumed after 30 calendar days from the date of a document's posting.
8. In September 2010, the Executive Board approved the methodology and principles for implementing the LOT procedure,<sup>5</sup> specifying that negotiated financing agreements for proposals submitted for Board approval through this procedure would be delivered to representatives at least five business days prior to the lapse of 30 days following delivery of the proposals.
9. The procedure was revised in September 2012<sup>6</sup> to increase the threshold of total financing eligible for approval through the LOT procedure from US\$15 million to US\$25 million.
10. Resource availability for proposals submitted through the LOT procedure is attested in the Resources Available for Commitment document presented each December.

<sup>4</sup> See EB 2009/98/R.15/Rev.1, Proposal to streamline the Executive Board approval process for IFAD-funded projects and programmes.

<sup>5</sup> See EB 2010/100/R.41/Rev.1, Implementation of rule 24 of the Rules of Procedure of the Executive Board on the lapse-of-time procedure.

<sup>6</sup> See EB 2012/106/R.9, Revision of the lapse-of-time procedure for approval of IFAD-funded projects and programmes.

11. In addition to increasing the Executive Board's efficiency, the LOT procedure was intended to improve forward planning and the distribution of proposals evenly across Board sessions. This was expected to ease the clustering of project proposals during the last session of the year.
12. However, the majority of LOT documents are submitted for approval in close proximity to Executive Board sessions, thus exacerbating the clustering of these documents around the December Board session and the third year of the performance-based allocation system (PBAS) cycle. This not only results in inefficiencies, but raises costs and affects the timeliness of document presentation, allowing less time for review and informed decision-making. In addition, the overload of documents for review in certain periods negatively impacts the Board's ability to exercise its oversight function.
13. To address these issues, the Office of the Secretary has raised the awareness of document originators regarding the flexibility and benefits of the LOT procedure. In addition, more frequent and flexible management review meetings spread evenly throughout the year are being scheduled to reduce the significant workload around the three annual Executive Board sessions and during the last year of the PBAS cycle. More flexible processes will ease the pressures on borrowing Member States and IFAD staff (e.g. timing negotiations) by untying the project approval process from Board sessions.
14. To complement these internal efforts to increase efficiency and maintain effective oversight by the Executive Board, the proposals below are presented for consideration.
  - (i) Proposal 1: Raise the LOT funding threshold from US\$25 million to US\$40 million (inclusive)
15. One of the constraints on the number of LOT proposals is the funding threshold of US\$25 million. LOT procedures have been mainly used for additional financing rather than new projects or programmes, except for countries with small PBAS allocations. Increasing the LOT threshold from US\$25 million to US\$40 million (inclusive) implies that more proposals will be eligible for submission using the LOT procedure while ensuring that the Board maintains oversight. Any member would still have the option of requesting discussion of any proposal submitted through LOT at a formal session.

#### Benefits

- Borrowing countries and IFAD staff would have more flexibility in planning and be able to use their time more efficiently.
- The Executive Board maintains its important oversight function in that all proposals submitted through the LOT procedure are still for the approval of the Board, and space is freed up in the in-session agenda to discuss emerging and/or strategic items.
- Based on the 2019 pipeline, raising the ceiling for LOT approval to US\$40 million would result in 17 projects being approved by LOT and 27 projects being approved in-session, compared to 13 through the LOT procedure and 34 in-session under the present cap of US\$25 million (see annex).

- (ii) Proposal 2: Reduce the time allocated for approval of proposals using the LOT procedure from the current 30 calendar days to 21 calendar days
16. To increase IFAD's agility in responding to clients and partners, Management has committed to reduce the project design period from concept note approval to Board approval from 17 months to eight months during the Eleventh Replenishment of IFAD's Resources (IFAD11) period. Allocating a shorter period for approval of proposals through the LOT procedure would contribute to meeting this corporate commitment. A review of other international financial institutions indicated that LOT procedures for Board approval take 14 calendar days at the African Development Bank and Inter-American Development Bank, and 21 days at the Asian Development Bank.
17. The Executive Board is invited to consider a reduction in the time allocated for approval of proposals through the LOT procedure from 30 to 21 calendar days. For this change to be implemented, rule 24 of the Rules of Procedure of the Executive Board would have to be amended accordingly.
- Benefit
- A reduction in the time allocated for approval by LOT procedure would contribute to meeting IFAD's corporate commitment to reduce the time required for project design.
18. Members will continue to be informed of projects/programmes and grants approved under the lapse-of-time procedure on IFAD's website<sup>7</sup> through the Member States Interactive Platform and also through an annual report presented to the Executive Board at its first session of the year. In both cases, any Member's objection/abstention to the approval of a given project/programme or grant will continue to be disclosed and noted in a disclaimer.

### III. Delegation of authority to the President

19. The President has the authority to approve grants up to US\$500,000, with the exception of grants to for-profit private-sector entities, which, irrespective of size, are presented to the Executive Board for approval at its regular sessions. No such authority has been delegated to the President for approval of investment projects and programmes. In addition, the following proposals are presented.
- (iii) Proposal 3: Delegation of authority to the President to approve proposals for additional financing to fill identified financing gaps valued at 50 per cent or less of the original IFAD financing approved by the Executive Board
20. In some instances, the Board approves programme and project proposals with an identified financing gap. Such gaps may be filled from allocated resources in the next PBAS cycle. In these cases, the Board has already approved all aspects of the proposal – the focus area, target groups, development objectives, components and outcomes, implementation considerations, costs, financing, and risk management plan. It is therefore proposed that in cases where the need for additional financing to cover financing gaps is identified, the Executive Board delegate authority to the President to approve additional financing proposals in which the design, focus and implementation arrangements have already been approved by the Board.<sup>8</sup> Most often, these financing gaps are the result of IFAD adopting a programmatic approach in project design over more than one PBAS cycle. Furthermore, delegation of authority would only occur when the approved financing gap to be filled is 50 per cent or less than the original amount of approved IFAD financing.

<sup>7</sup> See [www.ifad.org/en/lapse-of-time-doc](http://www.ifad.org/en/lapse-of-time-doc).

<sup>8</sup> In IFAD10, only one project with additional financing was approved to fill a financing gap due to non-materialization of international cofinancing.

Additional financing for projects that were approved with objections/abstentions from one or more Member States would not be eligible for approval through delegation of authority and would be submitted for the review of the Board. Finally, the President would only approve the proposal when the financing has become available through the PBAS.

#### Benefits

- The delegation of authority to the President would facilitate the effective governance of IFAD and free up more time for the Executive Board to consider new, emerging or strategic matters while maintaining oversight of ongoing projects and programmes.
- The President's approval of the proposals would result in cost savings.

(iv) Proposal 4: Delegate authority to the President to approve project proposals totalling US\$5 million and below

21. Approval of proposals for financing totalling US\$5 million and below, including approval of proposals for additional financing for scaling up successful operations, could be delegated to the President.<sup>9</sup> Management would report annually on projects approved by the President. Given that track 1 covers high-risk operations, these would be reviewed and approved by the Board irrespective of their funding threshold.

#### Benefits

- Delegation of authority to the President would facilitate the effective governance of IFAD and free up more time for the Board to consider new, emerging or strategic matters while maintaining oversight of ongoing projects and programmes.
- The President would approve the proposals, resulting in cost savings.

22. All project proposals for which approval is delegated to the President will be uploaded to a dedicated page on the Member States Interactive Platform no later than 14 days before approval. Any Member may request that a project delegated to the President be presented to the Board for approval. An objection/abstention by any Member to the approval by the President of a given project will be disclosed and noted in a disclaimer on the same page once communicated. Members will be informed of these project proposals through the annual programme of work and budget document presented to the December session of the Executive Board and in an annual report presented for the Board's information.

## IV. Recommendations

23. Noting that the proposed changes would not apply to projects and programmes classified as track 1 (high-risk operations), the Executive Board is invited to approve the proposals as described in the paragraphs 14-22 above and summarized below:
- (i) Improve the LOT procedure by raising the funding threshold from US\$25 million to US\$40 million (inclusive), and approve a reduction in the time required for approval of LOT proposals to 21 calendar days. The latter would require an amendment to rule 24 of the Rules of Procedure of the Executive Board.
  - (ii) Delegate authority to the President to approve:
    - (a) Proposals for additional financing to fill identified financing gaps already approved by the Executive Board in projects and programmes and where the total value is less than or equal to 50 per cent of the

<sup>9</sup> The proposal does not include grants under the Policy for Grant Financing.

original IFAD financing. If the additional financing is for a project that received an objection/abstention when originally presented for approval, the proposal would not be included in the delegation of authority modality;

- (b) Proposals for new projects with a value of US\$5 million and below;
  - (c) Additional financing for scaling up totalling US\$5 million and below. Delegation of authority would not be granted for additional financing proposals if the project had received an objection/abstention when originally presented for approval.
- (iii) New project and programme proposals with funding above US\$5 million and up to US\$40 million inclusive would be approved by the Executive Board through the LOT procedure, apart from those classified as track 1 (high-risk operations).
24. These proposals would not entail any changes to the President's current authority to approve grants up to US\$500,000 under the IFAD Policy for Grant Financing.
  25. The approval of these recommendations would result in improved administrative and operational efficiencies for the Fund and its governance, and enhanced Board processes.
  26. The implementation of these proposed actions would be reviewed in two years' time to identify lessons learned, efficiencies and cost savings. The experience vis-à-vis the Executive Board's oversight function would also be reviewed at that time.

## Lapse-of-time scenarios and IFAD10 actuals

1. This annex provides a simulation of the 2019 pipeline, applying variable caps on the level of financing to be approved via the lapse-of-time (LOT) procedure and using actual Tenth Replenishment of IFAD's Resources (IFAD10) data.
2. In all three scenarios created for the current 2019 pipeline, the majority of new investments (in terms of both number of project proposals and their respective value) would be presented for consideration in-session. With a LOT ceiling of US\$40 million, it is estimated that 79 per cent of the pipeline will be discussed in-session (or 27 projects).
3. Management's proposal to increase the LOT ceiling to US\$40 million would lead to 20 per cent of the value of the 2019 pipeline being approved via the LOT procedure.
4. Delegation of authority (DoA) to the President to approve projects with a value of up to US\$5 million would result in two new projects and one proposed scaling up operation being approved by the President. This would represent 1 per cent of the current pipeline. At present, there are no additional financing proposals for financing gaps that are lower than 50 per cent of the original amount of IFAD financing.

Table 1  
**LOT ceiling scenarios for the 2019 pipeline – number of projects**

LOT ceiling scenarios	In-session	By LOT	Variance over current procedure		DoA to the President
			In-session	By LOT	
≤ US\$25 million	34	13	-	-	-
1. ≤ US\$35 million	30	14	-4	+1	3
2. ≤ US\$40 million	27 (79%)	17 (20%)	-7	+4	3 (1%)
3. ≤ US\$50 million	20	24	-14	+11	3

Table 2  
**LOT ceiling scenarios for the 2019 pipeline – value of proposals**  
(Millions of United States dollars)

LOT ceiling scenarios	In-session	By LOT	DoA to the President
≤ US\$25 million	1 685	160	-
1. ≤ US\$35 million	1 564	267	14
2. ≤ US\$40 million	1 454	377 (20%)	14
3. ≤ US\$50 million	1 129	703	14

Table 3  
**IFAD10 actuals – number of projects (including additional financing)**

Year	In-session	By LOT	Total
2016	11	17	28
2017	23	24	47
2018	17	24	41
<b>Total</b>	<b>51</b>	<b>65</b>	<b>116</b>

Table 4  
**IFAD10 actuals – value of approvals**  
(Millions of United States dollars)

Year	In-session	By LOT	Total approvals	% of total by LOT
2016	477	235	712	33%
2017	1 024	264	1 288	20%
2018	871	265	1 137	23%
<b>Total</b>	<b>2 372</b>	<b>764</b>	<b>3 137</b>	<b>24%</b>