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Permanent Delegation of Authority for the Approval of Deviations from the IFAD Policy on Project Restructuring and the Faster Implementation of Project Start-up Instruments

Note to Executive Board representatives

Focal points:

Technical questions:

Nigel Brett

Director
Operational Policy and Results Division
Tel.: +39 06 5459 2516
e-mail: n.brett@ifad.org

Ruth Farrant

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

Dispatch of documentation:

Deirdre Mc Grenra

Chief
Institutional Governance and
Member Relations
Tel.: +39 06 5459 2374
e-mail: gb@ifad.org

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For: Approval

Recommendation for approval

The Executive Board is invited to consider and approve the recommendation contained in paragraph 9. The remaining provisions as contained in documents EB 2018/125/R.37/Rev.1 and EB 2018/125/R.38 are unchanged.

I. Introduction

1. The IFAD Policy on Project Restructuring and the Faster Implementation of Project Start-up (FIPS) Instruments were approved by the Executive Board in December 2018.¹ Both were introduced to promote project implementation performance and development effectiveness through enhanced flexibility and agility in responding to challenges during project implementation.
2. In response to the impact of the COVID-19 pandemic on rural farmers and communities, and the policies adopted by countries as a result, the Executive Board approved a time-bound delegation of authority (DoA) to the President of IFAD to approve deviations from the IFAD Policy on Project Restructuring and the FIPS instruments. This exceptional measure was extended until the Executive Board session in April 2022 and refers to:
 - (i) **IFAD Policy on Project Restructuring:** (a) reallocation of amounts from cancellations beyond the 12-month rolling basis from the date of cancellation and recommitments of amounts from projects that have less than one year until completion; and (b) mandatory cancellation of a project's allocation if the financing agreement has not entered into force within 18 months of the Board's approval or disbursement has not started within 18 months of the date of entry into force.
 - (ii) **Faster Implementation of Project Start-up Instruments:** waiver of the provision that requires approval of the FIPS instruments to be provided at least six months prior to the approval of the project by the Executive Board.
3. This document is presented in response to the request of the Executive Board in December 2021.² It describes lessons learned from the application of the DoA (see section II). These lessons illustrate IFAD's ability to react swiftly to the difficulties faced by borrowers/recipients in meeting the deadlines prescribed by the policy/instruments during the COVID-19 pandemic. While IFAD applied the time-bound DoA prudently and on a case-by-case basis, the experience to date suggests that IFAD's country programmes would benefit from improved performance if the DoA were to become a permanent measure.

II. Lessons learned

4. Since the adoption of the time-bound DoA in March 2020, the President has received one request regarding deviations from the FIPS instruments: the condition that proposals need to be approved at least six months before the approval of the associated project. As for the Policy on Project Restructuring, the four deviations processed so far refer to two aspects: (a) the 18-month automatic cancellation rule if the financing agreement was not countersigned; and (b) the 12-month rule whereby cancelled resources must be recommitted to ongoing well-performing projects or newly designed projects in the same country. Lessons learned from recent applications of the waivers are presented as follows.

¹ See EB 2018/125/R.37/Rev.1 and EB 2018/125/R.38.

² See EB 2021/134/R.37.

5. In Ecuador,³ IFAD waived the 12-month rule under the Policy on Project Restructuring to enable the recommitment and syndication of cancelled funds from two cancelled projects to a newly designed project. Without this waiver, the Government would have not been able to approve the application for reuse of cancelled funds within the stipulated 12-month time frame. In the same vein, the waiver meant that IFAD could support the Government in restructuring the country portfolio and continue operations during the Twelfth Replenishment of IFAD's Resources (IFAD12). This is particularly important as Ecuador will not receive resources from the performance-based allocation system (PBAS) or the Borrowed Resource Access Mechanism during IFAD12.
6. In Tonga, due to the adverse impacts of COVID-19 on the economy and government revenue, and the potential downturn of overseas remittances, the Government was obliged to temporarily withhold the IFAD additional financing of US\$4.5 million for the Tonga Rural Innovations Project Phase II⁴ to allow time for the state budget to be presented to parliament.
7. Upon confirmation from the Ministry of Finance of Tonga that the IFAD loan would be discussed at the parliamentary session in June 2021, the President of IFAD waived the 18-month limit for entry into force established by the IFAD Policy on Project Restructuring, extending the time frame to 24 months from IFAD approval. The time-bound DoA enabled IFAD to proceed with the waiver in a flexible and timely fashion and avoid time-consuming approval processes with additional cost implications.
8. For Madagascar, the Recovery and Resilience Project in Three Southern Regions (PA2R) was approved as an emergency response operation in December 2021. In February 2022, the Government requested prefinancing under the FIPS instruments. With the time-bound DoA, the FIPS six-month rule was waived after careful internal review, considering the emergency situation in the country and lengthy government processes. In short, the speed at which prefinancing was made available enabled the Government to quickly initiate the start-up preparation of this important emergency project.

Benefits of the DoA

- (i) While Management maintained the same rigorous internal compliance review of the proposals, the DoA allowed for a faster approval process of the exceptional waivers. This enabled IFAD country teams to follow up and better support borrower/recipient countries in project implementation.
- (ii) This accelerated process under the time-bound DoA helped borrower/recipient countries address unexpected challenges; for example, the ratification process of the IFAD financing agreement. It also allowed for the restructuring of IFAD's portfolio so that allocations and reallocations under the PBAS could be used in spite of time constraints.
- (iii) Lastly, the number of waivers has been considerably small. However, the standard process would have created additional work for the Executive Board and had budget implications linked to the need to translate and edit additional documentation. Thus, the DoA to the President can be considered an effective tool to contribute to IFAD's efficiency and agility in serving its Member States.

³ Catalysing Inclusive Value Chain Partnership Project. Grips no.: [2000001491](#); loan no.: 2000001754; grant no.: 2000001755; cancellation and reuse of cancelled funds for a new project.

⁴ Loan no.: 2000003151; grant no.: 2000003150; approved in October 2019 on Debt Sustainability Framework terms (20 per cent loan).

III. Recommendation

9. Considering the lessons learned above, and to avoid a new extension of the time-bound delegation of authority, the Executive Board is hereby requested to permanently delegate the authority to the President of IFAD to approve deviations from the IFAD Policy on Project Restructuring and the Faster Implementation of Project Start-up Instruments, including the below:
 - (i) **IFAD Policy on Project Restructuring:** (a) reallocation of amounts from cancellations beyond the 12-month rolling basis from the date of cancellation and recommitments of amounts from projects that have less than one year until completion; and (b) mandatory cancellation of a project's allocation if the financing agreement has not entered into force within 18 months of the Board's approval or disbursement has not started within 18 months of the date of entry into force.
 - (ii) **Faster Implementation of Project Start-up Instruments:** waiver of the provision that requires approval of the FIPS instruments at least six months prior to the approval of the project by the Executive Board.