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Enabling poor rural people  
to overcome poverty

## **Proposal to streamline the Executive Board approval process for IFAD-funded projects and programmes**

Executive Board — Ninety-eighth Session  
Rome, 15–17 December 2009

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For: **Approval**

## **Note to Executive Board Directors**

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## Contents

<b>Abbreviations and acronyms</b>	<b>ii</b>
<b>Recommendation for approval</b>	<b>iii</b>
<b>I. Background and rationale</b>	<b>1</b>
<b>II. Process followed</b>	<b>2</b>
<b>III. Proposal to streamline the Executive Board approval process</b>	<b>2</b>
A. Objective and key considerations	2
B. Approval type	3
C. Key criteria for determining approval type	3
D. Operationalization of the lapse-of-time procedure	4
<b>IV. Requested decision</b>	<b>5</b>
<b>V. Risks and safety measures</b>	<b>6</b>
<b>VI. Effectiveness and review</b>	<b>6</b>
 <b>Annex</b>	
Comparison table of Board engagement during design and Board approval procedures of projects and programmes	7

## **Abbreviations and acronyms**

IFI                      international financial institution

## **Recommendation for approval**

The Executive Board is invited to:

1. approve the proposal to “Streamline the Executive Board approval process for IFAD-funded projects and programmes” by authorizing:
  - (a) the application of a lapse-of-time procedure for those projects and programmes meeting the criteria specified in paragraphs 14 to 22 of the present document; and,
  - (b) the discussion of said projects and programmes only at the specific request of an Executive Board Director, as specified in paragraph 23 of the present document;
2. approve the proposed authorization for the use of advance commitment authority between sessions of the Board for projects and programmes approved under the lapse-of-time procedure, as specified in paragraph 25 of the present document;
3. approve the proposed amendment of the Rules of Procedure of the Executive Board, pursuant to its rule 27, as specified in paragraph 28 of the present document;
4. note that information on projects foreseen for approval under the lapse-of-time procedure will be included in the planned project activities document and that a document on the lessons learned in applying this procedure, including eventual recommendations for change as appropriate, will be presented to the Board in September 2011.



# Proposal to streamline the Executive Board approval process for IFAD-funded projects and programmes

## I. Background and rationale

1. Under the Agreement Establishing IFAD, all powers of the Fund are vested in the Governing Council (article 6, section 2(b)). In addition, the Executive Board, exercising the power conferred by the Agreement or delegated by the Governing Council, is responsible for the conduct of the general operations of the Fund (article 6, section 5(c)). This broad remit of the Board also includes the approval of all IFAD-funded projects/programmes (article 7, section 2(c)).
2. Approval decisions can be taken by a majority of three fifths of the votes cast, provided that such majority is more than one half of the total number of votes of all members of the Executive Board (article 6, section 6(b) and rule 19 of the Rules of Procedure of the Executive Board). However, on the strength of rule 20 of the Rules of Procedure of the Executive Board, the practice of decision by consensus has been followed in respect of project and programme approvals. Normally the Executive Board takes decisions while in session. However, the Rules of Procedure foresee the possibility of decision-making by correspondence (rule 23).
3. In the early decades of its establishment, the approval process in IFAD provided the Board with a critical instrument that enabled it to effectively discharge its responsibility for the conduct of the general operations of the Fund.
4. Over time, a host of instruments have been developed and added to assist the Board in discharging its responsibility for the conduct of the general operations. In addition to the Lending Policies and Criteria adopted by the Governing Council, the strategic framework now provides broad guidance for new operations. Policy instruments on, inter alia, rural finance, development of private-sector partnerships, land, crisis prevention, provide guidance on sectoral or thematic areas. The resource allocation process is now performance-based. A detailed annual work programme and budget is submitted for the Board's approval every year.
5. In addition, the institution is shifting its organizational culture to one that is results-based. In this light, an elaborate Results Measurement Framework was approved by the Board in September 2009. Since 2004 the Office of Evaluation has been operating autonomously within IFAD and now supports the Board directly in matters of evaluation. In recent years aggregative reports on IFAD's performance both from the Office of Evaluation (such as the Annual Report on Results and Impact of IFAD Operations [ARRI]) and from Management (such as the Report on IFAD's Development Effectiveness [RIDE]) have become more systematic and comprehensive.
6. Following the independent external evaluation and the ensuing action plan for improving IFAD's development effectiveness, IFAD also elaborated new guidelines for project design and quality enhancement that are currently in use. The country programmes have been rendered results-based and, according to the 2008 ARRI, recent country strategic opportunities programmes (COSOPs) and projects have set fewer and more realistic objectives. As an additional element in the pre-approval process, an arms-length quality assurance system was designed and has now become fully operational, with regular reports to the Board on the findings of quality assurance reviews and actions taken as a result to improve the quality of projects and programmes presented to the Board for approval.
7. Currently, all IFAD-funded projects and programmes are presented to the Board for approval. In response to the increased programme of work resulting from the successful conclusion of negotiations for the Eighth Replenishment of IFAD's

Resources, a significant part, but not all, of such an increase will be absorbed by adopting a more programmatic approach and thereby increasing the average loan size. The remainder, however, will have to be absorbed by some increase in the number of projects. If the current approval process continues, the Board agenda is likely to be even more crowded with projects and programmes submitted for the Board's approval.

8. In view of the recent addition of a variety of instruments that assist the Board in discharging its oversight responsibility, strengthened project development and quality assurance processes, and a shift to a results-based process of managing the institution, Board members now have a number of instruments at their disposal to conduct IFAD's general operations and to engage more concretely in defining the future strategic direction the Fund will take. This document presents a proposal that has been prepared with a view to streamlining the Board's approval process for IFAD-funded projects/programmes and strengthening the focus on the Board's strategic involvement in the activities of the Fund.

## **II. Process followed**

9. In developing this proposal, IFAD Management undertook the following activities:
  - (a) Review of the allocation of decision-making powers in the Fund's basic documents and the decision-making procedures currently available under these documents.
  - (b) Analysis of the procedures for project approval adopted by the executive boards of other international financial institutions (IFIs), since all other IFIs now have streamlined processes for project approval by their executive boards (see annex);
  - (c) Broad-based internal discussions also involving the Operations Management Committee and the Executive Management Committee;
  - (d) Discussion with the Convenors and Friends; and
  - (e) Presentation and discussion of a draft document at the informal seminar of the Executive Board members.
10. The proposal was revised on the basis of the feedback received at each step. This version incorporates feedback received from Executive Board members during the informal seminar, including inter alia the elimination of an approval-by-correspondence process and detailing of the procedure to be applied.

## **III. Proposal to streamline the Executive Board approval process**

### **A. Objective and key considerations**

11. The primary objective of streamlining the Board's project approval process is to allow the Board to dedicate more time to its strategic policy and oversight responsibilities by reducing the time spent on approving IFAD-funded projects/programmes during the Board's sessions.
12. This proposal also aims at:
  - (a) enabling IFAD Management to enhance the efficiency of project processing by reducing workload peaks, which currently occur around the three annual Board meetings; and
  - (b) offering more flexibility to borrowing Member States in terms of negotiations etc. by untying the project approval process from the three Board sessions per year.



13. This proposal, while enabling the Board to exempt a certain category of projects from Board discussion, reserves the Board's prerogative to discuss any IFAD-funded project/programme its members wish to discuss at the Board's formal meeting. The Board's oversight role is therefore maintained.

## B. Approval type

14. For IFAD-funded projects/programmes the Fund would apply the following procedures:
- (a) **Lapse-of-time procedure.** Under this procedure, eligible proposals, which meet specified criteria, will be considered approved by the Executive Board if no request for formal discussion by the Executive Board is received by a specified deadline.
- (b) **Standard procedure.** All IFAD-funded projects/programmes that do not fall under the lapse-of-time procedure will follow the existing standard procedure for Board approval. This category of projects/programmes will continue to follow existing practice for Board approval and no new changes have been proposed.

## C. Key criteria for determining approval type

15. In determining the type of approval process to be applied, IFAD will use three criteria:
- (a) amount of IFAD financing;
- (b) degree of innovation; and
- (c) complexity of the issues involved.

### Amount of financing

16. Most IFIs use the amount of project/programme financing as the principal criterion for determining approval type. For example, in the Asian Development Bank the "summary procedure", similar to the lapse-of-time procedure proposed above, is applied to projects that are below US\$200 million for public-sector projects. In the case of the African Development Bank, a limit of approximately US\$15 million is applied.
17. An analysis of project size over the last three years in IFAD shows that about one third of IFAD's projects are below US\$10 million and just over half fall under US\$15 million.

### Analysis of IFAD project/programme size

Approved amount (United States dollars)	Number of projects/programmes				Percentage	
	2006	2007	2008	Total	Each category	Cumulative
< 5 million	2	5	6	13	13.3	13
5 to < 10 million	4	9	8	21	21.4	35
10 to <15 million	7	5	7	19	19.4	54
15 to < 20 million	7	6	4	17	17.3	71
20 to < 25 million	3	3	3	9	9.2	81
Above 25 million	7	6	6	19	19.4	100
<b>Total</b>	<b>30</b>	<b>34</b>	<b>34</b>	<b>98</b>	<b>100</b>	

18. Project sizes have been generally increasing in IFAD in recent years. This trend is expected to continue at an accelerated rate, along with IFAD's shift towards a more programmatic approach and with the availability of more resources for the Eighth Replenishment period. In this light, a cut-off financing amount of US\$15 million has been proposed for determining approval type. Hence, projects with a total financing amount of up to US\$15 million will be approved under the lapse-of-time procedure,

provided they meet the other two criteria. Equally, projects with a total financing amount above US\$15 million will fall under the standard procedure, irrespective of their complexity and/or degree of innovation.

19. In calculating the total financing amount, grants under the debt sustainability framework will be included. Any other grant or supplementary funding that forms part of the total financing package will be considered using the designated procedures for the approval of grants or supplementary funding. The amount approved thus, however, will be included in the calculation of the project size described above in paragraph 18.
20. With the proposed maximum ceiling of US\$15 million equivalent for the application of lapse-of-time procedure, approximately 40 per cent of the total number of projects developed/designed during the Eighth Replenishment period is likely to follow this procedure. As these projects are essentially small in size, they are not likely to exceed 20 per cent of the total approved amount for IFAD-funded projects in any given year.

#### **Innovativeness of the project/programme**

21. When a project, or the instrument that is used in financing a project, or the partnership that has been forged to design and implement the project, is considered highly innovative by IFAD Management, such projects, irrespective of the amount of financing proposed, will be submitted to the Executive Board through the standard procedure and therefore will be subject to formal discussion in the Executive Board.

#### **Complexity of the issues involved**

22. IFAD Management will also follow standard procedure, irrespective of project size, when it has been determined that the proposed IFAD-funded project involves complex issues and the approval process would therefore benefit from discussion by the Board. The complexity of the issues involved would vary from case to case and may include, inter alia, financing proposals dealing with post-conflict situations; those that are likely to have pronounced social and environmental impact; those whose success will depend upon factors such as close regional cooperation, international trade regime etc.; or those that have radically different institutional arrangements for implementation.

### **D. Operationalization of the lapse-of-time procedure**

23. **Processing of the approvals.** Under this procedure relevant documents will be provided to Executive Board members through IFAD's website and members will be notified by e-mail that documents have been posted on the site; Executive Board approval will be assumed after the lapse of a period of 30 calendar days from the date of posting of the document and transmission of the relevant e-mail, in the absence of a request from an Executive Board member for the item to be discussed at the next session of the Board.<sup>1</sup> In the event of such a request being received, the project/programme will be included in the provisional agenda of the upcoming Board. In scheduling the item for discussion, the project/programme will be included in the provisional agenda of an upcoming Board, which allows sufficient preparatory time for both Executive Board members and staff to engage in meaningful discussion of the proposal.
24. **Information on approval type.** If this proposal is accepted, IFAD will submit an enhanced document on planned project activities by adding information on proposed approval type. As this document is submitted at every session of the Board, updated information would be available to Directors on a regular basis. In addition, information on the proposed approval type will be added to the public website containing IFAD's pipeline of planned project activities.<sup>2</sup> At each Board

<sup>1</sup> For the African Development Bank, this period is 14 calendar days.

<sup>2</sup> <http://www.ifad.org/operations/pipeline/>

session, IFAD Management will submit an information note listing all projects/programmes approved by adopting the lapse-of-time procedure in the preceding period.

25. **Authorization for commitment.** Under the current procedure, based on a proposal of the President, from time to time the Executive Board decides on the proportion of the Fund's resources to be committed in a financial year for financing operations in the form of grants and loans. As required by article 7, section 2(b) of the Agreement, this practice will also be maintained and will not be affected by intersessional approvals under the lapse-of-time procedure, or by advance authorization being sought from the Board for the period immediately following the Board session until its next session. This will be accomplished by:
- (a) presenting a list of projects/grants for approval during the current Executive Board session, together with a list of projects expected to be presented for approval through the lapse-of-time procedure prior to the next session (e.g. between the Executive Board in April and the Executive Board in September).
  - (b) cancelling any authorization made for projects/grants that are not approved.
26. In addition, no projects will be presented for approval through the lapse-of-time procedure after the December Executive Board session that would be allocated to the ongoing year's programme of work.
27. In accordance with the various replenishment resolutions, the Executive Board receives projections in relation to commitments to be made under advance commitment authority (ACA) and the total resource commitments to be made through ACA at each session. As per standard procedure, the Executive Board will review the ACA usage for the previous period.

#### IV. Requested decision

28. For the purpose of allowing certain decisions to be taken on a lapse-of-time basis, it will be necessary to amend the Rules of Procedure of the Executive Board, pursuant to its rule 27. To this end, the Executive Board is requested to adopt the following resolution:

The Executive Board, at its ninety-eighth session held on 15-17 December 2009,

HAVING considered the proposal of the President set forth in EB 2009/98/R.15 resolved that:

- (a) Effective 1 January 2010, the Rules of Procedure of the Executive Board shall be amended as follows:
  - (i) A new rule 24 shall be inserted reading:
 

**Lapse-of-time procedure**  
"Proposals for projects and programmes submitted by the President pursuant to article 7, section 2(c) of the Agreement shall be considered approved by the Executive Board if no request for consideration during a session of the Executive Board is received from any member within thirty days of the delivery to the members. For the purposes of this rule, delivery shall mean posting on the Fund's website and notification to members by e-mail."
  - (ii) Rules 24 through 28 shall be renumbered as 25, 26, 27, 28 and 29.

- (b) It is understood that, unless otherwise decided by the Executive Board, the new rule 24 shall not be applied when the amount of financing per project or programme exceeds SDR 10 million (approximately US\$15 million). However, IFAD Management would have the right to present a project, as it deems necessary, to the Board for discussion irrespective of the amount of financing per project or programme.

## **V. Risks and safety measures**

- 29. By retaining the authority of a Board member to call for discussion on any IFAD-funded project/programme, irrespective of its size, the risk associated with approving the proposed lapse-of-time procedure has been minimized. A well-functioning quality assurance process effectively supported by a solid framework of policy and procedural guidelines, enhanced ability to correct design defects through IFAD's direct supervision, IFAD Management's accountability for results, and independent evaluation of IFAD's operations, should adequately address the residual risks. The experience of other IFIs in reforming the approval process has revealed no additional risks. In fact, if the above is approved, IFAD will be brought more into line with the procedures adopted by all other IFIs, thereby reducing the risk of the Fund not being responsive to the demand for a more streamlined Board approval process from borrowing member governments.

## **VI. Effectiveness and review**

- 30. If the proposed reforms are approved, IFAD will submit a request for authorization of the amount involved under the lapse-of-time procedure for the next intersessional period in the April 2010 session of the Board and start implementing this procedure from 1 May 2010 onwards.
- 31. A review of implementation experience would be undertaken after a full year's operation and a report along with recommendations for changes, if any, will be presented at the September 2011 session of the Board. As regards the further linking of COSOPs and projects, Management recognized that this is an item that needs to be addressed at a later date in order to enhance the strategic nature of the Board.

# Comparison table of Board engagement during design and Board approval procedures of projects and programmes

Organization	IFAD	World Bank	Asian Development Bank	African Development Bank	Inter-American Development Bank
Board members engaged during design	Yes <sup>a</sup>	Partially <sup>b</sup>	No	No	No
Board approval procedures	<p><u>Standard procedure</u> All projects are discussed and approved during the three Executive Board sessions, <b>independent of size, type of loan, complexity etc.</b></p>	<p><u>Standard procedure.</u> Projects with a <b>cost of more than 10 per cent of the country programme</b> in the approved three-year lending allocation or <b>30 per cent of the current year lending programme</b> are discussed and approved at a Board meeting.</p> <p><u>Streamlined procedure.</u> A project is placed on the agenda of the Board. It is considered approved without prior discussion, unless an Executive Director requests that it should be discussed. <b>This applies to loan and grant operations that do not qualify for the standard procedure</b>, such as tranche releases under policy-based operations or follow-up programmatic loans, if there are no substantive programmatic changes in the programme and if country performance is satisfactory and for repeater projects.</p> <p><u>Lapse-of-time procedure.</u> The operation is not placed on the agenda of the Board. It is circulated to the Executive Directors for approval on a lapse-of-time basis. It is considered approved if there is no objection from a Board member within a specified period.</p> <p><u>Delegation to Management.</u> The Board has delegated authority to Management to approve Learning and Innovation loans of up to US\$5 million, if included in the Country Assistance Strategy; and subsequent Adaptable Programme loans.</p>	<p><u>Standard procedure</u> Projects with a cost of <b>more than US\$200 million for public-sector loans and US\$50 million for private-sector loans</b> are discussed and approved at a Board meeting.</p> <p><u>Streamlined procedure.</u> A project is placed on the agenda of the Board. It is considered approved without prior discussion, unless an Executive Director requests that it should be discussed. <b>This applies to loan and grant operations that do not qualify for the standard procedure.</b></p> <p><u>Lapse-of-time procedure.</u><sup>c</sup> The operation is not placed on the agenda of the Board. It is circulated to the Executive Directors for approval on a lapse-of-time basis. It is considered approved if there is no objection from a Board member within a specified period.</p>	<p><u>Standard Procedure</u> Projects with a cost <b>above the threshold of US\$15 million</b> or of a <b>complex nature</b> are discussed and approved at the Board meeting.</p> <p><u>Lapse-of-time procedure.</u> The operation is not placed on the agenda of the Board. It is circulated to the Board of Directors for approval on a lapse-of-time basis. It is considered approved if there is no objection from a Board member within a specified period. It applies to projects with a cost of <b>less than US\$15 million and of a non-complex nature.</b></p>	<p><u>Standard procedure.</u> All investment loans with a cost ranging from US\$25 million to US\$100 million are discussed and approved at a Board of directors meeting.</p> <p><u>Streamlined procedure.</u><sup>d</sup> The operation is placed on the agenda of the Board. It is considered approved without prior discussion, unless an Executive Director requests that it should be discussed. <b>This applies to loan and grant operations that do not qualify for the standard procedure.</b></p> <p><u>Lapse-of-time procedure.</u> The operation is not placed on the agenda of the Board. It is circulated to the Executive Directors for approval on a lapse-of-time basis. It is considered approved if there is no objection from a Board member within a specified period. It applies to non-reimbursable technical cooperation loans; and innovation loans below the threshold of US\$10 million.</p> <p><u>Delegation to Management.</u> The Board has delegated authority to Management to approve loans under the Emergency Reconstruction Facility for Natural Disasters Support and for certain non-reimbursable technical cooperation loans.</p>

<sup>a</sup> IFAD periodically provides information (website, planned project activity documents) on country meetings for country strategic opportunities programmes (COSOPs) and projects under design to facilitate the interaction of Executive Board members in the early stages of the design process.

<sup>b</sup> World Bank sends its Board early documentation on environment, resettlement and other safeguard materials.

<sup>c</sup> At the Asian Development Bank this is known as the 'summary procedure'.

<sup>d</sup> At the Inter-American Development Bank this is known as the 'simplified procedure'