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Investing in rural people

Minutes of the 120th session of the Executive Board

Note to Executive Board representatives

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Minutes of the 120th session of the Executive Board

I. Introduction

1. The 120th session of the Executive Board was held in Rome on 10 and 11 April 2017. A list of delegations is attached as annex I.
2. The Executive Board had before it the documents listed in annex II.

II. Opening of the session (agenda item 1)

3. The Chairperson, President Gilbert F. Houngbo, welcomed representatives to the 120th session, and congratulated the newly accredited Executive Board representatives as follows:
 - Mr Alberto Cogliati, Senior Advisor International Relations Directorate Ministry of Economy and Finance of the Italian Republic; and
 - Her Excellency, Martha Elena Federica Bárcena Coqui, Ambassador, Permanent Representative of the United Mexican States to IFAD.
4. The President welcomed representatives participating in a Board session for the first time, including Dr Teresa Tumwet, Agricultural Attaché, Embassy of the Republic of Kenya, as well as other delegates and observers attending the session and those in the salle d'écoute.
5. The President shared his insights about IFAD. He noted that IFAD was poised to increase its investment in rural areas and remain a principal champion for the bottom billion by matching its advocacy with finance, and measuring its results. IFAD would require the full support of the Executive Board to achieve its vision and help its Member States to deliver on their own commitments for the 2030 Agenda for Sustainable Development. He recognized core contributions as the bedrock of IFAD's funding, even as the institution sought innovative ways to complement official development assistance (ODA) and diversify its resource base. He pointed to the challenges of resource mobilization for IFAD's work given the widespread humanitarian emergencies, and noted the need for Management and the Board to discuss key strategic choices, such as the allocation of resources through the PBAS.
6. Regarding resource mobilization, he pointed out that the strategy must be driven by the programme of loans and grants, which in turn was driven by the internal capacity to deliver, the unmet needs of rural poor people and the demands of recipient Member States. The aim was to reach an annual programme of loans and grants (PoLG) of US\$1.5 billion for the Eleventh Replenishment of IFAD's Resources (IFAD11) and beyond, and ensure that the PoLG matched IFAD's intended impact.
7. Additionally, he underlined the importance of IFAD delivering on its core mandate with a continued focus on rural women's empowerment, youth employment, the right to food and nutrition and other rights, climate-smart agriculture, higher productivity, South-South and Triangular Cooperation, and access to rural finance. The President highlighted some additional areas of focus such as:
 - (a) Improving business processes and operations in order to enhance management, transparency, value for money, gender balance at senior levels and social dialogue among staff;
 - (b) Strengthening operations and further enhancing decentralization to optimize results, addressing the challenge of partnerships with the Rome-based agencies and other stakeholders; and

- (c) Fostering the spirit of innovation and making the Fund an incubator for innovation, especially for engagement with the private sector on technology, farming methods and innovation in management.
8. He noted the importance of good governance and shared decision-making with IFAD's governing bodies, and underscored the need for frequent and open dialogue between the governing bodies and Management. In this regard, the President mentioned a possible compact between the Executive Board and its Chairperson to reflect on how best to manage their reciprocal expectations.
 9. Through a joint List A, B and C statement, members welcomed President Hougbo in his new role as the President of IFAD and Chair of the Executive Board. They expressed their support and willingness to work with him to reach IFAD's target groups, promote reform and innovation, and further improve IFAD's ability to fulfil its overarching goal of investing in rural people to enable them to overcome poverty and achieve food security.
 10. The President provided highlights from the 119th session, and then opened the 120th session of the Executive Board.

III. Decisions of the Executive Board

A. Adoption of the agenda (agenda item 2)

11. The Executive Board adopted the agenda as proposed in document EB 2017/120/R.1/Rev.2, and noted the schedule of work contained in the addendum thereto. The agenda would be subsequently revised (as EB 2017/120/R.1/Rev.3) to reflect the following amendments agreed to by the Board:
 - (a) The removal of the following proposals:
 - (i) Southern Highlands Milkshed Development Project in the United Republic of Tanzania;
 - (ii) Rural Empowerment and Agricultural Development Scaling-up Initiative in the Republic of Indonesia; and
 - (iii) Markets for Village Farmers Project – Maket Bilong Vilis Fama in the Independent State of Papua New Guinea.
 - (b) The inclusion on the agenda, for discussion, of two documents originally presented for information, as requested by List A members, namely:
 - (i) "Update on New Financing Facilities: Professional Pathways Programme"; and
 - (ii) "Update on the design of the Smallholder and Small and Medium-Sized Enterprise Investment Finance Fund (SIF) at IFAD".
 - (c) The addition of two items under other business, as requested by the representative for the Netherlands, namely:
 - (i) Memorandum of understanding (MOU) on Rome-based agencies (RBA) collaboration; and
 - (ii) Update on IFAD's experience with MOUs with the private sector.
- #### B. PBAS formula and procedures (agenda item 3)
12. The Board reviewed the proposed performance-based allocation system (PBAS) formula and procedures, and the comments of the Independent Office of Evaluation of IFAD (IOE), as contained in document EB 2017/120/R.2+Add.1.
 13. The Board noted IOE's comments thereon, especially the view that Management had addressed the main recommendations of the corporate-level evaluation on the PBAS. IOE highlighted the inclusion of the IFAD Vulnerability Index (IVI); the

exclusion of the International Development Association's Resource Allocation Index, based on its Country Policy and Institutional Assessment; the proposal to conduct a Rural Sector Performance Assessment only once per PBAS cycle; and the proposal to discuss and review PBAS allocations in interdepartmental coordination committees. IOE noted, however, that the revised PBAS formula was still dominated by the size of the rural population.

14. The Board took note of the Evaluation Committee's review of the PBAS formula and procedures, and Committee members' agreement that Management should focus on the proposed scenarios 2 and 3, with a view to reaching a decision in time for implementation during IFAD11.
15. Through a joint statement, List A members thanked the technical secretariat for the progress made in reviewing the PBAS. They welcomed the decision to allow additional time to better understand the implications of the proposed changes within the context of IFAD's holistic approach and evolving business model, the innovative use of the IVI and the alignment of the formula with IFAD's mandate. They outlined recommendations for advancing work on the PBAS revision, namely:
 - (a) Continue discussions regarding the possible recalibration of the IVI and other elements in the formula to increase the focus on poverty;
 - (b) Create a balance between needs and performance to ensure that the PBAS allocated resources to countries that demonstrated good performance;
 - (c) Continue discussions on the influence of a country's gross national income (GNI) in the formula; and
 - (d) Ensure that members fully understood the nature and consequences of the proposed revisions, and that the review process was as inclusive as possible so as to take all views – Management and members' – into account.
16. A member noted that the PBAS formula had been greatly improved, and that the proposal by Management provided a better balance between country needs and performance and would thus ensure allocation of resources in line with IFAD's mandate. The need to keep the formula simple and transparent was also emphasized.
17. Some members expressed support for scenario 3, as they felt that it struck the most adequate balance between needs and performance, while adhering to IFAD's mandate. Members stressed the importance of allocating resources to the poorest and most vulnerable countries, and thanked Management for maintaining the 40-45 per cent allocation to sub-Saharan Africa. One member, while welcoming the majority support for scenario 3, asked that Management also consider scenario 1. The Board called upon Management to integrate performance as an incentive for the poorest countries.
18. Responding to the issues raised regarding needs and performance, Management explained that scenario 3 best achieved a balance between performance, at 52 per cent, and needs, at 48 per cent, while complying with required parameters such as the focus on Africa and on highly concessional lending.
19. A member expressed concern that in Management's preferred scenario 3, performance seemed to have greater weight than needs, and sought to understand how this would impact allocations to different regions. Management pointed out that with this scenario, countries with higher incomes had a greater responsibility to perform better in order to access more resources.
20. Some representatives highlighted the importance of showing the level of allocations per country based on the proposed scenarios. This would provide greater clarity on the implications of the decision to be made. Management provided further details in this regard, as had been shared with members under the various scenarios

contained in the document. Members requested that further analysis be conducted to show the possible impact of the proposed formula on IFAD's financial sustainability. The Board agreed that a clearer understanding of the implications of the proposed formula was needed.

21. Members thanked Management for confirming that the discussions of the revised PBAS were integral to the holistic approach and would be considered as part of a package that also included discussions of IFAD's business model, market borrowing, financial/capital structure, fragile situations and sovereign borrowing. A member requested that these discussions be held during the IFAD11 Consultation.
22. Some members expressed the view that the proposed revised formula should be re-presented to the Board for approval at the end of the year to allow for further discussion, especially in the context of the IFAD11 Consultation. Others preferred the approval timeline to remain open-ended, given the many interconnected issues that needed to be discussed and agreed upon before approval of the final proposal, and asked for careful consideration of the sequencing and timing of decisions. Specifically, members referred to the need to hold discussions on: the possibility of a two-window approach; other aspects such as country selectivity and related criteria; and the number of countries to be included in each allocation cycle and on what terms. In his concluding remarks, the Chairperson noted that while a firm commitment could not be made, it would be worth considering a two-window approach, and examining how the PBAS would be affected.
23. Regarding country selectivity, Management informed the Board that based on a preliminary analysis, working in fewer countries significantly increased the number of people reached by IFAD operations. Focusing on fewer countries in a cycle would not mean fewer countries in which IFAD was financing projects. Instead, it would reduce the number of countries designing new projects and increase the resource pool for larger projects. Regarding the terms of country selectivity and the issue of transition, Management agreed that these were important issues for consideration.
24. To apply the formula in IFAD11, the Board noted that Management would require ample time to make the necessary arrangements. In this regard, the Board acknowledged the importance of reaching consensus soon.
25. Finally, the Chairperson proposed that the document be presented for approval at the 121st session in September, at which point the Board would decide whether to approve the document or postpone its approval to a future session. The Board agreed to this proposal. The Working Group would thus continue to guide the review and revision of the PBAS framework, and present the final conclusions and recommendations at the September session.

C. Working Group on the Performance-Based Allocation System (agenda item 4)

- (a) Report of the Chairperson on the fifth meeting of the Working Group on the Performance-based Allocation System
 - (b) Report of the Chairperson on the sixth meeting of the Working Group on the Performance-based Allocation System
26. The Executive Board took note of the oral report of the Chairperson on the fifth and sixth meetings of the PBAS Working Group, based on the minutes of the two meetings contained in documents EB 2017/120/R.3 and R.4. The report was delivered by the representative for the Bolivarian Republic of Venezuela, Mr Porfirio Pestana de Barros, on behalf of the Chairperson of the Working Group and the representative for Nigeria, Dr Yaya O. Olaniran.
 27. The Board noted that the fifth and sixth meetings covered the second phase of the PBAS review process, which focused on analysing the weight allocated to each formula variable and on developing the final PBAS formula.

28. At the fifth meeting, members had noted the enhanced focus on rural poverty, and welcomed the inclusion of the IFAD-specific vulnerability index in the formula, which would generate a 10 per cent increase in allocations to countries with fragile situations.
29. At the sixth meeting, members had taken note of the sensitivity analysis undertaken by Management as requested, which assessed the formula's robustness to potential shocks and future changes in the weights of variables over the two subsequent replenishment cycles. Management had shared the four viable scenarios, which provided a balance between the country needs and country performance components. The Working Group had expressed their preference for scenarios 2 and 3, and had taken note of Management's preference for scenario 3.
30. The Board noted that Working Group members had requested more time to ensure a clearer understanding of the revised formula, hence the request to present the proposal to the September session for approval.

D. Tailoring operations to country context – a holistic approach (agenda item 5)

31. Management presented "Tailoring operations to country context – a holistic approach" (EB 2017/120/R.5), highlighting the issues to be addressed in adapting operations to different country contexts.
32. The Executive Board welcomed the document and took note of the information contained therein.
33. List A members, in a joint statement, encouraged IFAD to develop a clear strategy for countries at different stages of transition in making the social and economic progress needed to achieve the Sustainable Development Goals (SDGs). The strategy should incorporate clear actions, and should be formulated in consultation with Member States, building on IFAD's evolving business model.
34. On country selectivity, List A welcomed Management's decision to proactively manage the number of countries included in the PBAS, and expressed the expectation that IFAD would develop a framework for this decision-making process in line with its targeting policy. One representative drew attention to the issue of the development effectiveness of small programmes, and suggested that country selectivity and a reduction in the number of countries included in the programme of loans and grants to a maximum of 85-90 be further discussed during the IFAD11 Consultation. Management assured representatives that serious reflection would be made upon the possible impact of country selectivity.
35. The Executive Board supported the evolving strategic vision presented in the document, which was characterized by a greater focus on non-lending activities such as knowledge management, partnership-building – including with the private sector – policy engagement, reimbursable technical assistance, and South-South and Triangular Cooperation. List A remarked that a general assessment of IFAD's results in these areas would have been useful, along with an overview of how IFAD planned to address the downward trend noted recently in policy dialogue and partnership-building. It was also noted that IFAD could do better in measuring results and assessing the impact of these activities.
36. Given IFAD's efforts to explore additional resource mobilization modalities and the introduction of sovereign borrowing, List A commented that the key question of "on what terms?" was missing in the document. Specifically, it was noted that mobilizing additional resources through borrowing had ramifications for resource allocation, which IFAD would need to take into account when providing financing to recipient countries. Representatives also highlighted that many issues had still to be resolved regarding the PBAS and market borrowing.

37. List A proposed formulating a clear statement of policy on the proportion of IFAD11 financing that should be allocated to the poorest countries, based on mutually agreed criteria. At the same time, they suggested setting an upper threshold for borrowing on ordinary terms.
38. List A made reference to its statement on IFAD's holistic approach at the 118th session of the Executive Board, requesting that an approach to cofinancing be systematically applied, including clear cofinancing requirements for countries at different stages of development, in line with the different financing terms offered by IFAD as part of its overarching strategy to support countries' transitions.
39. Representatives commended IFAD for its commitment to extending its role as a facilitator of South-South and Triangular Cooperation, and for including this as an integral component of IFAD's business model.
40. Welcoming IFAD's recognition of the importance of having a strong headquarters, one representative expressed the hope that this would translate into an action plan for retaining and strengthening IFAD's lead in technical expertise in Rome in key areas, notably nutrition and gender.
41. While acknowledging the importance of IFAD investments in Africa, low-income countries (LICs) and countries with fragile situations, some representatives underscored the incidence of rural poverty in middle-income countries. Referring to the "middle-income trap" mentioned in the document, one representative underlined that the severity of rural poverty in some regions of upper-middle-income countries (UMICs) was comparable to that of LICs. On a similar note, one representative argued that the ranking and classification of countries based on their overall GDP did not always correspond to the reality of rural poverty, and suggested that GDP generated in the agricultural sector be taken into account for PBAS allocations.
42. In line with the above, it was stressed that rural poverty in UMICs should be taken into account when reviewing the PBAS and that a different approach should be adopted for MICs to guide them in overcoming the challenges being faced. Moreover, IFAD was urged to work closely with MICs in addressing rural poverty. The President commented that while not all UMICs needed IFAD's support, some of these countries had a high GNI per capita but lacked capacity. On the whole, their need for IFAD's support did not necessarily mean that they needed an allocation from IFAD's core resources. The President also suggested that consideration be given to ways of supporting countries transitioning from one classification to another.
43. The need for sectoral selectivity was highlighted, with one representative remarking that in fostering inclusive rural transformation, IFAD seemed to be expanding beyond the agriculture sector. He argued that this could cause sectoral over-stretch as IFAD was small and does not have expertise and knowledge in all sectors. Another representative stated that true inclusive rural transformation would require going beyond agriculture and, acknowledging that IFAD could not cope with other sectors alone, she suggested that an extended sectoral vision be implemented through partnerships.
44. One representative suggested that regardless of the level of development of a given country, IFAD should focus on the segments of the population that suffer from food insecurity. In this way, IFAD could help all countries reach the goal of reducing rural poverty while contributing to the food security of these segments. For this purpose, the representative expressed support for the regional and municipal-level approach presented in the document.
45. Management was encouraged to explore strategic partnerships with key national partners such as civil society organizations, the private sector and foundations.

46. Noting that the environmental footprint of IFAD's operations was dealt with in other IFAD documents such as IFAD's Environment and Natural Resource Management Policy, one representative requested that this issue be included in the holistic approach, with an indication of the impact of IFAD's operations on the environment in different field contexts.
47. One representative stated that the importance of respecting local cultures and traditions to facilitate context sensitivity could be mentioned in the document. It was also noted that decentralization increased the interaction between policymakers and beneficiaries, resulting in a more tailored country approach.
48. There was a request for greater attention to results, particularly by linking instruments to expected results, in line with the theory of change and the results measurement framework.
49. Some representatives suggested that the document include cross-cutting issues such as gender, nutrition and climate change.
50. Concern was expressed about matching borrowed resources with lending, and it was stressed that there should be no cross-subsidization of financial products. Management noted that if IFAD were able to deliver at a higher level than that allowed by official development assistance, then additional resources could be obtained from the market. However, other options could be examined, and Management considered the issue as a package deal. Resources from capital markets would be channelled to UMICs and Management would ensure that no cross-subsidization occurred.

E. Evaluation (agenda item 6)

51. The representative for Indonesia, Mr Des Alwi, presented an oral report on the ninety-sixth session of the Evaluation Committee to the Executive Board on behalf of the interim Evaluation Committee Chairperson and representative for India, Mr Rishikesh Singh. The Board noted that the report was based on the session minutes contained in document EB 2017/120/R.6.
52. At the session, the Evaluation Committee had reviewed the "Country strategy and programme evaluation for the Philippines", "Approach paper on the corporate-level evaluation of IFAD's financial architecture", "Revised harmonization agreement between IFAD's independent and self-evaluation systems", "Evaluation synthesis report on scaling up", "Taking the Results and Impact Management System to the next level" and "Timeline for a potential peer review of the Independent Office of Evaluation of IFAD".
53. Regarding the approach paper on IFAD's financial architecture, the Committee had expressed the view that the corporate-level evaluation (CLE) could be conducted as both an evaluation and an exploration of IFAD's evolving financial architecture. Specifically, members requested that the CLE explore the capacity of IFAD's financial model to use innovative instruments without reducing its financial sustainability. They also requested that it explicitly address the authority of the President and the Board in decisions concerning supplementary funds and complementary contributions, and the related oversight functions.
54. The Board was informed that Norway would give up its seat on the Evaluation Committee. The representative for Germany and List A Convenor mentioned that while there was as yet no nominee to replace Norway in the Evaluation Committee, a List A member from among the Board representatives would be identified prior to the next Evaluation Committee session on 12 July 2017. The Board agreed to the List A Convenor's suggestion to approve the nomination through a vote by correspondence once a nominee was identified.

F. Taking IFAD's Results and Impact Management System (RIMS) to the Next Level (agenda item 7)

55. The Executive Board reviewed "Taking IFAD's Results and Impact Management System (RIMS) to the Next Level" (EB 2017/120/R.7+Add.1+Corr.1), with IOE's comments thereon. The document contained Management's proposed revision of the RIMS framework aimed at enhancing the measurement of IFAD's results by upgrading the current set of indicators and how they are measured.
56. The Board noted IOE's comments, especially the concern raised about the discontinuation of the baseline and end-line surveys. Management explained that baseline surveys were, in fact, required for each indicator in project logical frameworks. Before-and-after surveys were just one method of establishing baselines and Management was no longer insisting on these, as they do not necessarily measure impact.
57. The Board welcomed the revised RIMS, especially the reduction in the number of indicators from over 100 to fewer than 40, as this would help harmonize results reporting, track progress and increase accountability. In addition to the reduction in indicators, efforts had been made to simplify their measurement requirements and ensure their relevance to project management. Members hoped that this would also facilitate better, evidence-based decision-making by Management.
58. Representatives also welcomed the alignment of the RIMS with IFAD's Strategic Framework and the SDGs. Furthermore, the Board welcomed the following aspects of the revised RIMS:
 - (i) The fact that core indicators would be mandatory for projects where relevant, but that projects would still have their own specific indicators;
 - (ii) The plan to build country-level monitoring and evaluation capacity;
 - (iii) The fact that due diligence and quality assurance would be conducted and that there would be a standard checklist for assessing project quality, which would include, as appropriate, core indicators;
 - (iv) The disaggregation of data by gender, age and indigenous peoples. Responding to a query about disaggregation of data for persons with disabilities in the spirit of "leaving no one behind", Management described the challenges in this area: data was disaggregated by disability only in countries that had a disability law, and these were very few. In cases where the data were available, there was no further disaggregation for rural areas. However, Management would continue to pursue possible options to capture this group of people; and
 - (v) The commitment to climate mainstreaming.
59. The Board found that conducting impact assessments on 15 per cent of the portfolio was a modest target. Management responded that since assessments would no longer be confined to measuring contribution and would now include a specific focus on attribution, this was an ambitious target.
60. The Board provided suggestions for consideration by Management, and sought clarification and more information on the following issues:
 - (i) Reconsider the phrasing of indicator 1.1.1 to make it less restrictive; it could be reworded as "number of agricultural households/smallholder farmers that have formal recognition of tenure or access rights to natural resources";
 - (ii) In addition to disaggregated data by gender, include more gender equality and gender-sensitive indicators within the proposed list;

- (iii) Develop the means to measure results on indicators achieved through partnerships and collaboration with other agencies;
 - (iv) Spell out when and how the transition from the old RIMS to the revised version would be undertaken;
 - (v) Explain the selection criteria for the 15 per cent of the portfolio to undergo impact assessment, and how IFAD would ensure that the remaining 85 per cent of projects were adequately evaluated by government partners;
 - (vi) Propose a way of measuring empowerment of rural people; and
 - (vii) Explain how IFAD will manage the cost of undertaking impact surveys.
61. Management pointed out that the RIMS and the core indicators were only one component of the project monitoring and evaluation (M&E) system and did not necessarily capture every detail of what was being done. The overall project M&E system would ensure that all aspects were captured and the revised RIMS should be considered within the context of the overall Impact Assessment Initiative and the Development Effectiveness Framework.
62. It was noted that while projects would assess outcome indicators using IFAD annual outcome surveys, such surveys would not be imposed when equal or better systems were in place in a country to measure the outcomes of IFAD projects. In this regard, a representative wondered if adapting the outcome-level core indicators to suit national M&E methodologies would lead to inconsistency in results. Management explained that there was a trade-off in ensuring country ownership of projects.
- G. Country strategic opportunities programme (COSOP):
Uzbekistan (agenda item 8)**
63. The Executive Board reviewed the country strategic opportunities programme of the Republic of Uzbekistan (EB 2017/120/R.8).
64. An informal seminar had been held on this COSOP on 8 March, which had been attended by only two Board representatives. The Secretary of IFAD, a.i., informed the Board that discussions were ongoing with the Convenors to find ways to enhance participation in informal seminars.
65. The Board strongly commended the team for a high-quality document that clearly presented IFAD's strategic priorities and programme of work. It was suggested that the list of partners be expanded to include the International Labour Organization (ILO), the European Bank for Reconstruction and Development, the Japan International Cooperation Agency and the Kuwait Fund for Arab Economic Development.
66. Some representatives enquired about the situation on child and forced labour in the country, particularly in the cotton sector. The IFAD team referred to a recent ILO report (February 2017), in which the organization confirmed that child labour had been phased out in Uzbekistan and that measures had been put in place by ILO and the World Bank to monitor labour practices. Furthermore, in Uzbekistan, the cotton sector was dominated by large-scale farmers, who were not an IFAD target group.
67. Members referred to the challenges associated with targeting smallholders – dekhkans – in Uzbekistan. In response, Management reconfirmed that working with smallholders was IFAD's strategic niche in the country and that IFAD's ongoing portfolio had already demonstrated positive results on the ground.

H. Project/programme proposals for consideration by the Executive Board (agenda item 9)

68. The Board was informed that the negotiations of the financing agreement and guarantee agreement for the Maranhão Rural Poverty Alleviation Project in Brazil had been approved by 31 March 2017, as agreed at its 119th session. A copy of the negotiated financing agreement and guarantee agreement had been shared with the Executive Board.

(a) East and Southern Africa

Angola: Smallholder Agriculture Development and Commercialization Project in Cuanza Sul and Huila Provinces

69. The Executive Board considered the proposal contained in document EB 2017/120/R.9 with its addendum and negotiated financing agreement, and adopted the following resolutions:

RESOLVED: that the Fund shall provide a loan on ordinary terms to the Republic of Angola in an amount of twenty-eight million eight hundred thousand United States dollars (US\$28,800,000) and upon such terms and conditions as shall be substantially in accordance with the terms and conditions presented herein.

(b) Asia and the Pacific

Sri Lanka: Smallholder Agribusiness Partnerships Programme

70. The Executive Board considered the proposal contained in document EB 2017/120/R.13 with its negotiated financing agreement, and adopted the following resolution:

RESOLVED: that the Fund shall provide a loan on blend terms to the Democratic Socialist Republic of Sri Lanka in an amount equivalent to thirty-three million and seven hundred thousand United States dollars (US\$33,700,000), and upon such terms and conditions as shall be substantially in accordance with the terms and conditions presented herein.

I. Financial matters (agenda item 10)

(a) Report of the Chairperson of the Audit Committee on the 143rd meeting

71. The Executive Board reviewed "Report of the Chairperson on the 143rd meeting of the Audit Committee", as contained in document EB 2017/120/R.14.
72. The oral summary of the Chairperson provided an overview of the Committee's discussions.
73. Representatives requested clarification and further details on: the level of IFAD's operating expenses; foreign-exchange volatility and its potential relevance, risk and disbursement management; the cross-cutting institutional issues reported by the Office of Audit and Oversight (AUO), AUO's recommendations, the type of alleged wrongdoings investigated by the AUO and the nature of complaints received. The Chairperson and Management provided clarification as required.
74. The Chairperson of the Audit Committee explained that IFAD Country Offices operated in a wide range of contexts, and the issues faced during the audit were equally diverse. He suggested that an effort should be made to standardize procedures, especially on the administrative side, to facilitate monitoring by headquarters.
75. AUO provided clarifications on its 2016 annual report, and the audit recommendations, which covered such issues as ICO budget and expenditures; the management of assets; drivers' services and vehicles; the delegation of decision-making, particularly in the area of finance; and compliance with security and safety requirements. Sixteen of these recommendations had been assigned high priority so that quick action would be taken to mitigate risks. The Board was also informed

that 56 cases/complaints had been closed in 2016, of which 29 were project-related and 27 staff-related. AUO recalled that the "Annual Report on Investigative and Anticorruption Activities" was made available each year on IFAD's public website, subsequent to its approval at the Audit Committee meeting in March/April.

76. Regarding the emphasis on audits of ICOs, the AUO explained that a deliberate decision had been made to focus the scope of these audits, in 2015 and 2016, on organizational, procedural, compliance and efficiency matters in order to provide feedback and lessons learned on the emerging risks in the area of decentralization. AUO further explained that, as of this year, the emphasis would shift to the fiduciary and procurement aspects of the country programmes, and that they would prepare an audit report based on cross-cutting themes instead of gathering lessons learned from individual ICO audits. The same report would also follow up on the findings of the project procurement audit carried out in 2015.
77. The issue of restricted access to internal audit reports was raised by a representative, who suggested that this be reviewed. The General Counsel informed the Board about a survey carried out by the Organisation for Economic Co-operation and Development (OECD) in 2015 on disclosure policies regarding internal audit reports in 42 international organizations, of which 33 had an audit committee. Citing some of the results of the survey, he noted that there was a varied practice and that therefore, it was difficult to determine whether there was a best practice among the international organizations. He further noted that dialogue on this issue would continue with the IFAD Audit Committee and AUO.
78. Further to a comment on the restricted access to some sub-Committee documents, another representative stated that this issue should be considered with a view to enhancing transparency and openness within the Membership. While the President supported this idea, he also pointed out the challenge of protecting whistleblowers and sources of information with respect to audit reports. He proposed that a document on the issue be submitted to the Board in December and, possibly, provision of an update on the preparation status of the document to the Board at its September session.
79. There was also a request to review IFAD's strategic risk register. In this respect, one representative noted that although the Audit Committee was tasked with reviewing the risks faced by the Fund, neither the Board nor the Committee was able to review IFAD's risk register. The representative suggested that this issue be further discussed by both the Audit Committee and the Board. The President noted that IFAD had an enterprise risk management system, and suggested that the issue be brought to the Audit Committee, and then to the Board. The Chairperson of the Audit Committee agreed to take up this issue in the Audit Committee.
80. During the discussions, Board members emphasized the need to continuously monitor and review the exchange rate risk and sought further assurance on the controls that IFAD had in place to mitigate the impact of exchange rate losses, particularly in volatile times. Management provided additional details on exchange rate losses and various currency-risk mitigation measures adopted by the fund.
81. In response to a question regarding the flow of funds, Management clarified that given the nature of IFAD's financial structure, the liquidity requirements were prudent and adequate. As for the average life of loans, the period of IFAD loans tended to be much longer than those of other international financial institutions. Management also expressed the view that acceleration of loan disbursements would yield better results. On the other hand, it was noted that a rapid flow of money sometimes led to undesirable practices. In this respect, the Board was informed that a document on an interdepartmental exercise regarding disbursements would be shared as part of the business process changes that Management planned to introduce for IFAD11.

82. Some representatives commented on the need for a link between the Audit Committee's discussions and those of the Executive Board. A representative suggested that some issues considered by the Audit Committee be followed up on by the Executive Board.
83. Noting the Committee's request to be kept informed on the progress of the Corporate Working Group on the Policies and Criteria for IFAD Financing and Terms, a representative asked Management to provide the Committee with regular updates on the feasibility study on borrowing as well as on the implementation of the Sovereign Borrowing Framework.
- (b) Consolidated financial statements of IFAD as at 31 December 2016
84. The Executive Board considered the "Consolidated financial statements of IFAD as at 31 December 2016 (including the Management assertion report and an independent external attestation on the effectiveness of internal controls over financial reporting" (EB 2017/120/R.15).
85. Management identified key factors affecting IFAD's financial position and reported results, emphasizing that the overall financial situation was sound, and that long-term viability was being monitored closely. Additional details were provided on foreign exchange volatility impacting the financial statements, as well as on the various currency-risk mitigation measures adopted by the Fund. It was noted that at the end of December 2016, IFAD's liquidity was above the minimum liquidity-policy requirement. The impact of Debt Sustainability Framework (DSF) expenses on IFAD's financial position, and the importance of DSF compensation from Member States to IFAD as a main consideration for long-term financial viability, were underscored. It was noted that the level of pledges required as DSF compensation will increase to US\$37.1 million during IFAD11.
86. Management provided further clarification on the level of operating/consultancy expenses.
87. In conclusion, the Board approved the following decision:
 "In accordance with regulation XII(6) of the Financial Regulations of IFAD, the Executive Board considered the consolidated financial statements of IFAD as at 31 December 2016 and the report of the external auditor thereon, including the independent external attestation on the effectiveness of internal controls over financial reporting, and agreed to submit them to the Governing Council at its forty-first session in February 2018 for approval."
- (c) Requirements for the thirty-eighth drawdown of Member State contributions in 2017
88. The Executive Board considered "Requirements for the thirty-eighth drawdown of Member State contributions in 2017" (EB 2017/120/R.16).
89. The Executive Board adopted the following decision:
 "The Executive Board, in accordance with article 4, section 5(c), of the Agreement Establishing IFAD and regulation V of the Financial Regulations of IFAD, approves the drawdown of 35 per cent of the Tenth Replenishment contributions in April 2017, or as may be stipulated in agreements with individual Member States, to meet loan and grant disbursements for 2017. Any further funds required for disbursement needs in 2017 not covered by the drawdown of these contributions will be met from the liquid assets of the Fund. The Executive Board authorizes the President to proceed accordingly."

J. Country visits of the IFAD Executive Board 2018-2020 (agenda item 11)

90. Having considered "Visits of the IFAD Executive Board 2018-2020" (EB 2017/120/R.17), the Board approved Ethiopia and Cameroon respectively as the destinations for its 2018 and 2019 country visits.
91. The Board also approved 14 to 18 May as the dates for the visit to Ethiopia in 2018. The destination for the 2020 country visit would be discussed at a future Board session.

K. Update on New Financing Facilities: Professional Pathways Programme (agenda item 13)

92. The Executive Board took note of "Update on New Financing Facilities: Professional Pathways Programme" (EB 2017/120/R.18).
93. With reference to related discussions held at the 119th session, a representative recalled that the Board had urged the utmost caution regarding the new financing facilities, adding that thorough information on selection criteria and process, and impact and sustainability of the programme would be important. Another representative noted that the compensation package for the Pathway participants should take into consideration national public sector compensation systems in countries concerned. Relevant information was requested for a subsequent session of the Board when Management seeks approval to accept a supplementary fund contribution for the programme.
94. Management underscored that the programme was focused on capacity-building of national partners, and reported that these issues were still being discussed with various foundation partners. More information would be provided at a subsequent session should a request for approval to accept supplementary funds for the programme be presented.

L. Update on the design of the Smallholder and Small and Medium-Sized Enterprise Investment Finance Fund (SIF) at IFAD (agenda item 21)

95. As requested by the Board, Management provided an update on the proposed design of the Smallholder and Small and Medium-Sized Enterprise Investment Finance Fund. The Board took note of the information provided on the updated SIF proposal. The SIF would enable IFAD to promote small and medium-sized enterprise (SME) financing, and to increasingly leverage and unlock private sector investments. The aim was to stimulate commercial financing for value chain development, capitalize on IFAD's portfolio as a de-risking mechanism, and unlock responsible private sector investments aimed at improving social and economic conditions for smallholders. Management informed the Board that institutional arrangements and legal issues were still under design, given that the SIF would be funded by external sources and would not use IFAD core replenishment resources.
96. The Board expressed appreciation for the informative document, and for the opportunity to discuss it. They acknowledged the SIF as a creative and innovative way of partnering with the private sector to enhance value chain development, and welcomed the plan to work with local financial institutions to co-fund initiatives by farmers and SMEs.
97. Regarding the proposed direct investment to be undertaken by the SIF, a representative wondered if this would create unfair competition for national financial services providers. Management reassured the Board that there was no danger of crowding out national providers because the SIF would operate in a segment that was lower than that targeted by commercial institutions but above the space typically occupied by microfinance institutions.

98. Responding to a question on the source of funds for the SIF, Management highlighted that the costs would be fully financed by supplementary funds. Members sought clarification on several issues and provided comments for Management's consideration in finalizing the document. Management acknowledged that the SIF was still a work-in-progress and assured the Board that all the issues raised would be addressed comprehensively in the final proposal.
99. The Board took note of Management's plan to present the final design of the SIF to the 121st session in September 2017.

M. Other business (agenda item 12)

100. At the request of the representative for the Netherlands, two items were considered under other business.
 - (a) MoU on RBA collaboration
101. Management provided an update on collaboration among the Rome-based agencies (RBAs) in follow up to the joint paper presented at the 119th session. Regarding the RBA Senior Consultative Group meeting held on 20 January, the Board was informed that: (i) concrete decisions to implement the joint paper's actions had been taken; (ii) a discussion had been held on the consolidated report to the RBA Principals on the implementation of the 2016 RBA joint priorities; and (iii) the RBA joint priorities for 2017 had been formulated.
102. With regard to the RBA Principals' meeting held on 28 March 2017, the Board was informed that the Report on the Implementation of the RBA 2016 Joint Priorities had been endorsed, and the 2017 joint priorities had been agreed upon. The next Senior Consultative Group meeting, which had a special responsibility in monitoring the implementation of the joint paper, would take place in May 2017. At the meeting, the Chiefs of Staff of the three agencies would also report on their discussions regarding a high-level joint annual seminar on RBA collaboration.
103. A memorandum of understanding (MOU) had been signed between FAO and WFP in late March. Management noted that IFAD had not been involved in the formulation of this MoU, which addressed institutional and operational issues discussed between FAO and WFP that related to their special institutional relationship.
104. The Executive Board took note of the information provided and encouraged Management to hold a joint seminar/session on RBA collaboration and to increase collaboration with the other RBAs in the future.
105. The President, recalling his proposal at the hearing prior to his election of holding a joint informal Executive Board seminar/session, assured the Board that he would fulfil his commitment with regard to RBA collaboration.
106. Some representatives highlighted the importance of RBA collaboration in the field. Furthermore, in light of Agenda 2030 and the SDGs, partnership with WFP and FAO provided a way to deliver better and more effective results. It was suggested that new, specific channels of communication could be created to keep Membership better informed on RBA collaboration. One representative proposed that the joint session focus on the next steps, including joint assessments and joint country papers. Another expectation from this collaboration was stronger capacity to work together on policy dialogue.
107. Noting that bridging the humanitarian-development divide was a key challenge from the development perspective, one representative suggested that the RBAs pool their resources in a given country to increase poor rural people's productive capacities and the benefits derived from market participation, and to strengthen their resilience.

(b) Updates on IFAD experience with MoUs with the private sector

108. The Executive Board took note of the update on the experience with MoUs between IFAD and the private sector as provided by Management. Management highlighted the lessons learned from working with multinational corporations, such as the need to identify geographical and crop alignment between the company and the IFAD-funded project, and to involve suppliers, traders and smallholders in the agreements.
109. Management provided highlights of the results of agreements signed in 2014 with Intel and Unilever. Although the agreement with Unilever in India did not result in a deal between farmers and traders, the partnership on the cassava value chain in Nigeria was very successful and cassava smallholders had been trained in Unilever's Sustainable Agriculture Code. With Intel, the eAgri software extension tools had successfully been used by smallholders and rural entrepreneurs in the Asia region since the signing of the MoU.
110. Management also indicated that other partnerships with multinational corporations were ongoing without the signature of formal MoUs. The Board asked what the added advantage was of signing MoUs if such partnerships were possible without them. Management underscored the importance of MoUs in fostering systematic action planning and continuity of initiatives and activities.
111. The Board also asked what was the attraction and added value for the private sector of working with IFAD. Management noted that there was an interest, as well as a need, from private sector companies and corporations in working with IFAD and sourcing with smallholders as part of their corporate social responsibility efforts and core operations. In this context, and given the increasing importance of agriculture for their business, IFAD was a valued partner because it provided the private sector with access to smallholder producers.

N. Closing of the session

112. The President thanked the Executive Board for their warm welcome and their active participation and productive contributions during the session. He also thanked representatives for the various List and cross-List statements, which had greatly contributed to the efficiency of the Board session.
113. Furthermore, the President thanked Mr Pestana de Barros, Mr Des Alwi and Mr Alberto Cogliati, for their comprehensive reports to the Board on behalf of the Working Group on the Performance-Based Allocation System, and the Evaluation and Audit Committees respectively. He also thanked IOE for the informative reports on various items covered at the session.
114. Finally, the President summarized the discussions, some of which would continue in an informal setting at the Executive Board retreat, and declared the session closed.

IV. Documents presented for information

115. The following documents were presented to the Board for information purposes:
 - Update on New Financing Facilities: Professional Pathways Programme (EB 2017/120/R.18)
 - Planned global, regional and country activities report (EB 2017/120/R.19)
 - Report on the status of contributions to the Tenth Replenishment of IFAD's Resources (EB 2017/120/R.20/Rev.1)
 - Report on the first session of the Consultation on the Eleventh Replenishment of IFAD's Resources (EB 2017/120/R.21)
 - Report on IFAD's investment portfolio for 2016 (EB 2017/120/R.22)

- Status report on arrears and principal, interest and service charge payments (EB 2017/120/R.23)
- Estimated principal, and net service charge payments forgone as a result of the implementation of the Debt Sustainability Framework (EB 2017/120/R.24)
- Projects/programmes and grants approved under the lapse-of-time procedure in 2016 (EB 2017/120/R.25)
- Update on the design of the Smallholder and Small and Medium-Sized Enterprise Investment Finance Fund (SIF) at IFAD (EB 2017/120/R.26)

V. Information provided under the fit-for-purpose approach

- List of documents for the 120th session of the Executive Board



Investing in rural people
Investir dans les populations rurales
Invertir en la población rural
الاستثمار في السكان الريفيين

المنديبون في الدورة العشرين بعد المائة للمجلس التنفيذي

Delegations at the 120th session of
the Executive Board

Délégations à la cent vingtième session
du Conseil d'administration

Delegaciones en el 120º período de
sesiones de la Junta Ejecutiva

Executive Board — 120th Session
Rome, 10-11 April 2017

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المراقبون

OBSERVERS
OBSERVATEURS
OBSERVADORES

الاستراتيجية القطرية

COSOP DELIBERATIONS¹
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¹ Pursuant to document EB 2002/77/R.12: Procedure for the Review of Country Strategic Opportunities Papers (COSOPS) by the Executive Board. Paragraph 15 (2) Process.

List of documents placed before the 120th session of the Executive Board

Document No.	Agenda item	Title
EB 2017/120/R.1/Rev.2	2	Provisional agenda
EB 2017/120/R.1/Rev.2/Add.1/Rev.1	2	Schedule of work for the session
EB 2017/120/R.2 + Add.1	3	PBAS formula and procedures
EB 2017/120/R.3	4(a)	Minutes of the fifth meeting of the Working Group on the Performance-Based Allocation System
EB 2017/120/R.4	4(b)	Minutes of the sixth meeting of the Working Group on the Performance-Based Allocation System
EB 2017/120/R.5	5	Tailoring operations to country context – a holistic approach
EB 2017/120/R.6 + Corr.1 ²	6	Minutes of the ninety-sixth session of the Evaluation Committee
EB 2017/120/R.7 + Corr.1 + Add.1	7	Taking IFAD's Results and Impact Management System (RIMS) to the Next Level
EB 2017/120/R.8	8	Uzbekistan: Country strategic opportunities programme
EB 2017/120/R.9 + Add.1 + Sup.1 ³	9(a)(i)	Angola: Smallholder Agriculture Development and Commercialization Project in Cuanza Sul and Huila Provinces
EB 2017/120/R.10 ⁴	9(a)(ii)	United Republic of Tanzania: Southern Highlands Milkshed Development Project
EB 2017/120/R.11 ³	9(b)(i)	Indonesia: Rural Empowerment and Agricultural Development Scaling-up Initiative
EB 2017/120/R.12 ³	9(b)(ii)	Papua New Guinea: Markets for Village Farmers Project – Maket Bilong Vilis Fama
EB 2017/120/R.13 + Sup.1 ²	9(b)(iii)	Sri Lanka: Smallholder Agribusiness Partnerships Programme
EB 2017/120/R.14	10(a)	Report of the Chairperson on the 143 rd meeting of the Audit Committee
EB 2017/120/R.15	10(b)	Consolidated Financial Statements of IFAD as at 31 December 2016

² Document delivered in French only.

³ Document delivered in English only.

⁴ Withdrawn from the agenda.

EB 2017/120/R.16	10(c)	Requirements for the thirty-eighth drawdown of Member State contributions in 2017
EB 2017/120/R.26	10(d)	Proposal for settlement of outstanding contributions of the Republic of Iraq
EB 2017/120/R.17	11	Country visits of the IFAD Executive Board 2018-2020
Documents presented for information		
EB 2017/120/R.18	13	Update on New Financing Facilities: Professional Pathways Programme
EB 2017/120/R.19	14	Planned global, regional and country activities as at 24 February 2017
EB 2017/120/R.20	15	Report on the status of the Tenth Replenishment of IFAD's Resources
EB 2017/120/R.21	16	Report on the first session of the Consultation on the Eleventh Replenishment of IFAD's Resources
EB 2017/120/R.22	17	Report on IFAD's investment portfolio for 2016
EB 2017/120/R.23	18	Status report on arrears in principal, interest and service charge payments
EB 2017/120/R.24	19	Estimated principal and net service charge payments forgone as a result of the implementation of the Debt Sustainability Framework
EB 2017/120/R.25	20	Projects/programmes and grants approved under the lapse-of-time procedure in 2016
EB 2017/120/R.26	21	Update on the design of the Smallholder and Small and Medium-Sized Enterprise Investment Finance Fund (SIF) at IFAD
Fit-for-purpose approach		
EB 2017 FFP2 ⁵		List of documents for the 120 th session of the Executive Board

⁵ Document delivered in English only.

Information notes

EB 2017/120/INF.1	Arrangements for the 120 th session of the Executive Board
EB 2017/120/INF.2	Agreement between IFAD Management and the Independent Office of Evaluation of IFAD on the Harmonization of IFAD's Independent Evaluation and Self-Evaluation Methods and Systems Part I: Evaluation Criteria
EB 2017/120/INF.3	2016 grants under the global/regional and country-specific grant windows approved by the President
EB 2017/120/INF.4	High-level review of IFAD's financial statements for 2016
EB 2017/120/INF.5	Highlights of the international conference on "Investing in inclusive rural transformation: Innovative approaches to financing", 25-27 January 2017
EB 2017/120/INF.6	Results of the Executive Board vote by correspondence regarding the nomination of the United Kingdom to replace Sweden in the current composition of the Audit Committee
EB 2017/120/INF.7	Brazil: Maranhão Rural Poverty Alleviation Project - Information note

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Agenda

Note to Executive Board representatives

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Executive Board — 120th Session
Rome, 10-11 April 2017

Agenda

I. Items for approval, information or review⁶

1. Opening of the session
2. Adoption of the agenda [A]

For ease of reference, each agenda item is assigned a letter to indicate the action required of the Board, as follows:

[A] = For approval
 [R] = For review
 [I] = For information

3. PBAS formula and procedures [A]
4. Working Group on the Performance-Based Allocation System [I]
 - (a) Report of the Chairperson on the fifth meeting of the Working Group on the Performance-Based Allocation System
 - (b) Report of the Chairperson on the sixth meeting of the Working Group on the Performance-Based Allocation System
5. Tailoring operations to country context – a holistic approach [R]
6. Evaluation
 - Ninety-sixth session of the Evaluation Committee [I]
7. Taking IFAD's Results and Impact Management System (RIMS) to the Next Level [R]
8. Country strategic opportunities programme (COSOP): Uzbekistan [R]
9. Project/programme proposals for consideration by the Executive Board [A]
 - (a) East and Southern Africa
 - Angola: Smallholder Agriculture Development and Commercialization Project in Cuanza Sul and Huila Provinces
 - (b) Asia and the Pacific
 - Sri Lanka: Smallholder Agribusiness Partnerships Programme
10. Financial matters
 - (a) Report of the Chairperson on the 143rd meeting of the Audit Committee [R]
 - (b) Consolidated financial statements of IFAD as at 31 December 2016 [A]
 - (c) Requirements for the thirty-eighth drawdown of Member State contributions in 2017 [A]
11. Country visits of the IFAD Executive Board 2018-2020 [A]
12. Other business [I]
 - (a) MoU on RBA collaboration
 - (b) Updates on IFAD experience with MoUs with the private sector

⁶ Some items for information are included and will be discussed during the Board session.

II. Documents presented for information [I]

Documents presented for information will be discussed during a Board session only if deemed necessary by Management or at the specific request of a Board representative. Such requests should be submitted in writing to the Secretary of IFAD no later than one week before the Board session.

The schedule of work will include only items to be discussed during the Board session (i.e. items for approval, review or confirmation and documents for information for which a written request for discussion at the Board has been received) and will be posted on the IFAD website two weeks before the session.

13. Update on New Financing Facilities: Professional Pathways Programme
14. Planned global, regional and country activities report
15. Report on the status of contributions to the Tenth Replenishment of IFAD's Resources
16. Report on the first session of the Consultation on the Eleventh Replenishment of IFAD's Resources
17. Report on IFAD's investment portfolio for 2016
18. Status report on arrears and principal, interest and service charge payments
19. Estimated principal, and net service charge payments forgone as a result of the implementation of the Debt Sustainability Framework
20. Projects/programmes and grants approved under the lapse-of-time procedure in 2016
21. Update on the design of the Smallholder and Small and Medium-Sized Enterprise Investment Finance Fund (SIF) at IFAD

III. Information notes

- (a) Arrangements for the 120th session of the Executive Board
- (b) 2016 grants under the global/regional and country-specific grant windows approved by the President
- (c) Brazil: Maranhão Rural Poverty Alleviation Project – negotiated agreement
- (d) High-level review of IFAD's financial statements for 2016
- (e) Agreement between IFAD Management and the Independent Office of Evaluation of IFAD on the Harmonization of IFAD's Independent Evaluation and Self-Evaluation Methods and Systems Part I: Evaluation Criteria
- (f) Results of the Executive Board vote by correspondence regarding the filling of the vacant Audit Committee seat
- (g) Highlights of the International Conference on Investing in Inclusive Rural Transformation: Innovative Approaches to Financing, held from 25 to 27 January 2017