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Investing in rural people

Summary of the Chairperson: Second session of the Consultation on the Eleventh Replenishment of IFAD's Resources

Note to Executive Board representatives

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Executive Board — 121st Session
Rome, 13-14 September 2017

For: Information

Summary of the Chairperson: Second session of the Consultation on the Eleventh Replenishment of IFAD's Resources

In accordance with resolution 195/XL on the Establishment of the Consultation on the Eleventh Replenishment of IFAD's Resources (IFAD11), requiring that the Executive Board be kept informed of the progress of the deliberations of the Consultation, the Chairperson's Summary of the second session of the IFAD11 Consultation is herewith provided in the annex to this document.

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Summary of the Chairperson: Second session of the Consultation on the Eleventh Replenishment of IFAD's Resources

Note to Consultation members

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Consultation on the Eleventh Replenishment of IFAD's Resources —
Second Session

Rome, 29-30 June 2017

For: Information

Summary of the Chairperson: Second session of the Consultation on the Eleventh Replenishment of IFAD's Resources

I. Introduction

1. Members of the Consultation on the Eleventh Replenishment of IFAD's Resources (IFAD11), IFAD Management and staff, observers and guests met at IFAD headquarters in Rome on 29 and 30 June 2017 for the second session of the IFAD11 Consultation.
2. The following papers, prepared by IFAD Management, were reviewed:
(i) Looking ahead: IFAD in the context of the 2030 Agenda for Sustainable Development; (ii) Enhancing IFAD11 business model to deliver impact at scale; (iii) Enhancing the relevance of IFAD operations to country context; (iv) Financial strategy for IFAD11 and beyond; (v) Review of IFAD's Debt Sustainability Framework (DSF) and proposal on future approach; and (vi) Draft resolution on the Eleventh Replenishment of IFAD's Resources.
3. Presentations were also made by the Independent Office of Evaluation of IFAD (IOE) on the corporate-level evaluations (CLEs) of IFAD's performance-based allocation system (PBAS) and its decentralization experience; and IFAD's Office of Audit and Oversight (AUO) on the findings of recent audit work on IFAD Country Offices.

II. Summary of discussion

Opening remarks and adoption of the agenda

4. Following introductory statements by the External Chair and the President of IFAD, the members of lists A, B and C – for the first time in an IFAD replenishment consultation session – offered a cross-list statement, providing an important demonstration of Member States' strong support for IFAD and a common position with regard to many issues concerning IFAD11. Members then adopted the agenda without amendment.

Looking ahead: IFAD in the context of the 2030 Agenda for Sustainable Development

5. Members welcomed the paper and Management's presentation. Members recognized that inclusive sustainable rural transformation serves as a driving force in achieving the Sustainable Development Goals (SDGs), and that IFAD is a unique institution with a critical role to play in doing so and in "leaving no one behind".
6. Members recognized IFAD's particular comparative advantages as presented in the paper, and joined in support of IFAD's overall strategic directions and the need to enhance how IFAD mobilizes, allocates and uses resources. Members urged IFAD to further sharpen the description of its comparative advantage and value proposition, and to clearly articulate the Fund's ability to mobilize domestic resources from borrowing countries and its contribution to specific SDGs and targets.
7. Members endorsed IFAD's intention to continue strengthening its focus on climate, nutrition, gender equality and women's empowerment. In particular, members welcomed the President's intention to intensify IFAD's support for rural youth, noting linkages to the issue of migration. Members urged IFAD to ensure that it retain a clear focus on productive activities and livelihoods, as well as on land tenure and on the private sector.

Corporate-level evaluations of IFAD's PBAS and of its decentralization experience, audit work on IFAD country offices, Enhancing IFAD11 business model to deliver impact at scale and Enhancing the relevance of IFAD operations to country context

8. Members welcomed the papers and presentations and expressed broad support for the four pillars of the business model proposed for IFAD11. List statements were made by Lists A, C1 and C2.
9. On resource mobilization, members generally appreciated Management's ambitious vision for growth in IFAD's programme of work and programme of loans and grants, but also urged caution in view of potential constraints on demand, capacity and resources, as well as a stronger dollar since the IFAD10 Consultation, and asked for further information on expected demand, outreach and impact. Members also noted the importance of considering the debt carrying capacity of borrowers.
10. Members requested Management to provide further details on the planned approach to leveraging cofinancing, including from international financial institutions (IFIs), the private sector and governments, particularly in upper-middle-income countries (UMICs). Members urged IFAD to continue strengthening partnerships with other IFIs, the Rome-based agencies and other United Nations agencies. Management noted that these matters will be addressed in the paper on partnership to be submitted for the third session of the Consultation in October 2017.
11. On resource allocation, members appreciated Management's commitment to focus on the poorest countries and the poorest people, and agreed that IFAD should focus the majority of its resources on low-income countries (LICs) and lower-middle-income countries (LMICs), while recognizing the need for IFAD to remain engaged in UMICs. Members welcomed retention of the commitments to allocate 50 per cent of resources to Africa and 45 per cent to sub-Saharan Africa, as well as to provide 25-30 per cent to countries with the most-fragile situations (MFS), while aiming to increase overall resources for all country groups.
12. Members noted the findings of IOE's CLE of the PBAS and the expected adoption of a revised PBAS at the September 2017 meeting of IFAD's Executive Board. Members noted that the PBAS would need to be revisited for IFAD12. The proposal to allocate 90 per cent of official development assistance resources to LICs and LMICs was supported by many members, while some expressed concern about the implications of this approach in the absence of secure access to borrowed resources.
13. Members generally agreed on the need for country selectivity, but that it needs to be based on transparent, non-discriminating criteria and without being overly restrictive on the number of countries, in particular as regards LICs, small island developing states (SIDS) and MFS.
14. On resource utilization, members supported IFAD Management proposals for "doing development differently", increasing agility, addressing disbursement delays, and focusing on delivering and measuring results, but urged greater attention to accommodating the special circumstances of SIDSs and MFS in the proposed business model. Members requested, and Management provided, further information on the Operational Excellence for Results initiative.
15. Members recognized the benefits of stronger country presence and noted the President's intention to accelerate decentralization, but urged management of risks and cost implications. Members supported greater non-lending engagement, including in country-level policy, partnership-building, South-South and Triangular Cooperation and knowledge-sharing.

16. Members requested, and Management provided, further details of the proposed transition framework, of innovative products such as results-based lending, and of the project preparation facility.
17. On transforming resources into development results, members expressed support for the development effectiveness framework and encouraged IFAD to continue its efforts to facilitate evidence-based decision-making and improve its development results. Members welcomed Management's commitment to full transparency.

Financial strategy for IFAD11 and beyond
18. Members welcomed the paper and presentations, and expressed support for Management's efforts to diversify IFAD's financing sources and make borrowing an integral part of the financial framework, including exploration of further sovereign borrowing, a concessional partner loan (CPL) framework and market borrowing. Members appreciated Management's confirmation that IFAD would remain a fund, rather than a bank, and stressed that replenishment would remain the foundation of IFAD's financial strategy.
19. Given the importance of sovereign borrowing and CPLs for IFAD11, in the likely absence of market borrowing during IFAD11, members urged Management to be proactive in developing sovereign borrowing opportunities and in proposing a clear time line for development of the CPL framework, following the technical seminar planned for 11 July. Members noted that the framework should ensure measures to avoid substitution risk. They also noted the need to take a strategic approach to mobilization of supplementary resources.
20. Members welcomed the market borrowing roadmap, requested that it be further elaborated to take account of additional important action items and key decision points for the Executive Board and Governing Council, and urged that a prudent and cautious approach be taken. While members noted that market borrowing would likely not be achievable for IFAD11, they encouraged IFAD Management to continue the preparatory work with a view to IFAD12. Members requested information on the requirements for achieving an AAA rating, and recognized that a strong replenishment would be essential to achieving such a rating. Members welcomed the proposal by Management to commission a peer review by one of the IFIs to assess IFAD's readiness to borrow from the capital markets. The successful market borrowing experience of the Fondo Financiero para el Desarrollo de la Cuenca del Plata (FONPLATA) in Latin America was noted as a promising example for IFAD's consideration.
21. While some members urged caution in establishing replenishment targets, others stressed the importance of significantly increasing support for IFAD in view of the urgency of the 2030 Agenda for Sustainable Development (Agenda 2030). Management highlighted that the programmes financed under IFAD11 would be critical to achieving Agenda 2030 and urged members to make the biggest possible effort to achieve a successful IFAD11 Replenishment.
22. Members requested further information on IFAD's capacity-building requirements to implement the financial strategy, comparison of the costs of pursuing various borrowing strategies, and forecasts of how the diverse scenarios would affect the capital structure of IFAD. Members also urged full development of risk management policies and capacity. Management confirmed that the current Agreement Establishing IFAD ensured that Member States would not be exposed to any liability under the diverse borrowing options (article 3, section 3 – Limitation of Liability).
23. Members requested further information on the transition framework, recognizing its linkages to IFAD's financial strategy, and also requested an opportunity to revisit the linkages between the lending terms and country income classifications. Some Members urged that the transition framework be discussed as part of the IFAD11 replenishment consultation process.

Review of IFAD's Debt Sustainability Framework (DSF) and proposal on future approach

24. Members supported retaining the DSF as proposed by Management, but questioned the proposed change in modified volume approach (MVA), since it was seen to harm the poorest and most debt-distressed countries. Members requested Management to present a revised proposal in the financial framework paper at the third session of the IFAD11 Consultation in October 2017. The revised proposal should consider current approaches to DSF in comparable institutions, address concerns regarding additionality of compensation, and avoid penalizing the most vulnerable countries.

Draft Resolution on the Eleventh Replenishment of IFAD's Resources

25. Members appreciated the opportunity to review the draft resolution at this early stage and requested a number of clarifications, which were provided by Management, including on the need for the proposed amendments to the Agreement Establishing IFAD, giving IFAD the power to borrow from markets, and including the grant element of the CPLs as a type of additional contribution. Members also asked about the removal of the structural gap, the treatment of unrestricted complementary contributions in IFAD11, the role of the Executive Board in approving market borrowing, and the treatment of exchange rates. Management will reflect member comments in the forthcoming revision of the draft resolution.

Concluding statements

26. The session ended with a closing statement by the President of IFAD and a summary by the Chairperson.