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Investing in rural people

Minutes of the Third Meeting of the Working Group on the Transition Framework

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For: Information

Minutes of the Third Meeting of the Working Group on the Transition Framework

1. The third meeting of the Working Group on the Transition Framework (TFWG) was held on 23 July 2018; the discussions are summarized in this document.
2. Once approved by Working Group members, the minutes will be shared with the Executive Board at its next session and will serve as the basis for the Chairperson's oral report.

Agenda item 1: Opening of the meeting

3. Participants included Working Group members from Argentina (Chair), Cameroon, France, Germany, India, Italy, Kuwait and the United Kingdom. Executive Board observers from Angola, Brazil, Canada, China, Dominican Republic, Mexico and Nigeria were also present. IFAD was represented by the Associate Vice-President, Programme Management Department; the Associate Vice-President, Chief Financial Officer and Chief Controller, Financial Operations Department (via phone conference); the General Counsel (via phone conference); the Director, Financial Management Services Division; the Director, West and Central Africa Division, and Director, a.i., Operational Policy and Results Division; the Acting Secretary of IFAD; and other staff.

Agenda item 2: Adoption of the agenda

4. The provisional agenda, document TFWG 2018/3/W.P.1, contained seven items: (i) Opening of the meeting; (ii) Adoption of the agenda; (iii) Terms of Reference of the TFWG: (a) Results-based lending; (iv) Transition Framework – Draft document; (v) Presentation by Management on the transformation of IFAD's business model and financial architecture; (vi) Minutes of the Second Meeting of the Transition Framework Working Group; and (vii) Other business.
5. The Working Group adopted the agenda as revised to include an item under Other business proposed by the United Kingdom. The item pertained to the proposed joint meeting of the Working Group and the Audit Committee on 8 October, which had been preliminarily discussed at the second meeting of the Working Group.

Agenda item 3: Terms of Reference of the TFWG

(a) Results-based lending (Terms of Reference, paragraph 7(iii))

6. Management provided a brief presentation outlining the main features of project and programmatic results-based lending (RBL). The presentation demonstrated the demand that exists for the RBL instrument, drawing on the findings of the corporate-level evaluation on financial architecture and the experiences of other international financial institutions. IFAD's proposal for piloting the instrument was also presented, inclusive of the planned risks and mitigation measures.
7. Discussions revolved around the assessment of demand and the risks associated with RBL in the agricultural sector. The Working Group was reminded of the jointly agreed Eleventh Replenishment of IFAD's Resources (IFAD11) commitment to present a pilot initiative for approval by the Executive Board.
8. It was underlined that the uptake of RBL would always be of a voluntary nature and demand-based, funded by a country's allocation under the performance-based allocation system (PBAS). There would be no obligation to use the entire PBAS allocation for RBL, and the pilot would be jointly developed with the borrower. IFAD would attempt to pilot the instrument in a variety of countries to assess its suitability to different country contexts. Criteria for piloting programmatic RBL would include a well-defined country programme and IFAD having input in the design in order to incorporate the perspectives of its target group. The proposed six-year time frame for the pilot was initially considered to be too long. However, it was noted that an average RBL operation ran for five to six years.

A self-assessment after three years would allow for an early evaluation of (i) the costs of design and supervision, (ii) demand for the instrument and (iii) IFAD's role in the RBL operation.

9. It was recognized that there were risks associated with RBL in the agricultural sector, which posed specific challenges for the measurement of results achieved. The self-assessment would help determine whether the instrument should be adopted after the pilot phase.
10. It was underscored that there was a fundamental difference between IFAD projects, in terms of the agriculture sector's vulnerability, and the projects of other institutions using RBL. Some Members indicated that, based on their experience, this kind of instrument had not helped improve programme implementation in their countries and/or regions. They noted difficulties setting indicators for targets in this regard.
11. Members emphasized the need for strong fiduciary checks and controls. Management would exercise caution in preparing the fiduciary aspects of the instruments and in addressing financial management, procurement, and fraud and corruption risks. It noted that lessons learned from other institutions would inform the development of IFAD-specific procedures to support a robust programme while mitigating underlying risks.
12. The importance of independent verification protocols for the disbursement-linked indicators was highlighted. It was clarified that the body selected for such verification would be jointly agreed by the Fund and the borrower after having assessed its capacity and independence from both the lender and the borrower. The body tasked with measurement and identification would be an integral part of project/programme design.
13. In line with the proposal presented, during the pilot phase there would not be a stand-alone policy. Instead, waivers to relevant procedures would accompany the single pilots presented to the Executive Board.
14. It was agreed that the proposal would be resubmitted to the next Working Group meeting, taking into account the comments provided during the meeting. No endorsement was given at this stage.

Agenda item 4: Transition Framework – Draft document

15. Despite its lateness and the fact that it was posted in English only, the zero draft of the Transition Framework document was well received by some Members, as was the accompanying presentation.
16. With respect to the content of the document, several Members highlighted the need for it to conform to the elements agreed in the terms of reference. Accordingly, they requested that matters relating to the third phase and needing further discussion not be included in the document.
17. The Members made preliminary comments on the 10 elements included in the document and it was agreed that these comments, together with additional considerations, would be sent in writing to be taken into account in preparing the first draft of the document.
18. During the dialogue it was noted that some of the elements included in the zero draft were pertinent to the mandate of other committees (e.g. the Audit Committee or PBAS Working Group).
19. The Members also expressed broad support for highlighting the fundamental role played by UMICs in IFAD's borrowing framework and their potential key role in IFAD's financial sustainability.
20. It was underscored that there was a clear need for the Transition Framework document to provide for the eventuality of a reversal of lending terms due to

deterioration of country's debt exposure. It was noted that the proposed financing and non-financing elements would take this into consideration.

21. It was agreed that the document would be made available on the Member States Interactive Platform in a format that would facilitate comments from members, and that a revised document would be resubmitted to the next TFWG meeting in all languages, taking into account comments provided within the next few days. Comments received later would be incorporated into the next and final draft.

Agenda item 5: Presentation by Management on the transformation of IFAD's business model and financial architecture

22. Due to time constraints, the presentation was deferred to the next meeting of the Working Group.

Agenda item 6: Minutes of the Second Meeting of the Working Group on the Transition Framework

23. The Working Group approved the revisions to the draft minutes of its second meeting (TFWG 2018/3/W.P.4). The final minutes, incorporating the approved revisions would be posted on the Member States Interactive Platform.

Agenda item 7: Other business – Joint meeting of the TFWG and the Audit Committee

24. It was agreed that a joint session of the Audit Committee and the TFWG would be held on 8 October 2018. The respective Chairpersons would meet to agree on the agenda.