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Investing in rural people

## **Report on the Second Session of the Consultation on the Twelfth Replenishment of IFAD's Resources**

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**For: Information**

## **Report on the Second Session of the Consultation on the Twelfth Replenishment of IFAD's Resources**

In accordance with resolution 211/XLIII on the Establishment of the Consultation on the Twelfth Replenishment of IFAD's Resources (IFAD12), requiring that the Executive Board be kept informed of the progress of the deliberations of the Consultation, the Chairperson's Summaries of the two meetings of the second session of the IFAD12 Consultation are herewith provided in the annex to this document.

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Investing in rural people

## **Summary of the Chairperson: Reconvened Second Session of the Consultation on the Twelfth Replenishment of IFAD's Resources**

For: **Information**

## **Summary of the Chairperson: Reconvened Second Session of the Consultation on the Twelfth Replenishment of IFAD's Resources**

1. Members of the Consultation on the Twelfth Replenishment of IFAD's Resources (IFAD12), IFAD Management and staff reconvened on 22 and 23 July 2020 for the second part of the second Consultation session to discuss the IFAD12 business model and financial framework. Representatives from the World Bank, African Development Bank and the Asian Development Bank attended as observers.
2. Following introductory remarks by the External Chair, Mr Kyle Peters, the President of IFAD made an opening statement reminding Members of the urgent need to step up support to the world's most poor and hungry people and setting the scene for the discussion on financing for IFAD12 with a call to contribute to the highest financial scenario. IFAD's two special envoys for IFAD12 – His Excellency Olusegun Obasanjo, the former President of Nigeria and President of the African Food Prize and His Excellency Hailemariam Desalegn, the former Prime Minister of Ethiopia and current Chair of the Alliance for African Green Revolution – participated as distinguished guests in the opening segment of the session. They spoke about the positive impact that IFAD had had in the rural communities in their respective countries and the heightened relevance of IFAD's mandate in the current situation to ensure that rural communities can recover from crises and prosper. They expressed support for the Fund's ambitions for IFAD12 and called on Members to support a robust replenishment.
3. The delegate from the State of Kuwait announced that due to current travel restrictions and measures related to the global pandemic, Kuwait would no longer be able to host the third session of the IFAD12 Consultation in October. However, the hope was that it would be possible to host a future event for IFAD. With regard to the format of the third session, the External Chair informed Members that Management would send out a communication in due course.
4. Before moving on to the main agenda item, the External Chair provided an update on transition/graduation discussions. Since the first meeting of the second session on 16 and 17 June and following subsequent consultations with List Conveners, it had been agreed to form a small group of delegates that included representatives from all Lists to seek a way forward. Members were informed that the group would convene their first meeting the following week. Members would be regularly updated on progress by group participants and would receive a written update at the October session or earlier.
5. The agenda was adopted without amendment.

### **A. Operational business model**

6. Management presented a comprehensive overview of the business model and financial framework paper, summarizing the main points regarding the operational business model, financial framework and scenarios, and the draft Results Management Framework (RMF).
7. Members were appreciative of the comprehensiveness of the paper and its articulation of IFAD's comparative advantage. They welcomed the proposed emphasis on recovery, rebuilding and longer-term resilience to support achievement of the Sustainable Development Goals (SDGs), and the adaptation of IFAD's operational approach to evolving circumstances related to COVID-19. With regard to resilience, Members called for an integrated approach that would address different types of shocks affecting rural livelihoods.
8. There was support for the proposed theory of change for the IFAD12 business model, including the emphasis on delivering transformational country programmes

with enhanced mainstreaming, targeting, cofinancing, partnerships and innovations. Members welcomed “proximity” and “adaptability” as the two guiding principles of the business model and agreed on the need to enhance project-level efficiency and sustainability through integration of the mainstreaming themes, as discussed in June, and through closer monitoring and increased government ownership. There was support for IFAD’s plan to increase decentralization in IFAD12, but additional information was requested on budgetary implications, implementation in the present difficult context and the links between increased country presence and policy outcomes. Several Members encouraged a cautious approach to the principle of adaptability to ensure that it did not compromise development impact.

9. Partnerships, cofinancing, South-South and Triangular Cooperation, and coordination at the country level, including with the United Nations Country Teams and international finance institutions, were highlighted as particularly important in facilitating knowledge exchange and sharing of lessons on how to increase impact and engage with the private sector. IFAD’s increased emphasis on policy was welcomed but Members called on IFAD to be more concrete regarding its intentions and plans for policy engagement, including its proposal to pilot policy-based lending. Members appreciated the increased focus on fragile contexts and the details provided on Management’s action plan in this regard.
10. Several Members welcomed the plan to expand IFAD’s programme of work with new or expanded means of engagement, such as through the private sector and grant financing (ASAP+). However, it was important to ensure that IFAD’s COVID-19 response was linked to the programme of work. They also requested more information on how the new or expanded programmes would be integrated within the programme of loans and grants and how IFAD intended to avoid or manage substitution risk. In particular, Members requested information on the types of financing instruments and approaches available to engage with the private sector and on how IFAD would ensure linkages between the sovereign and non-sovereign portfolio.
11. Regarding the size of projects in IFAD12, it was mentioned that IFAD’s approach should be context-specific and that, in some contexts, bigger projects could lead to greater impact and promote policy outcomes. Members highlighted the need to reinforce safeguards in IFAD12, particularly in light of the increasing size of IFAD’s projects. Clarification was requested on IFAD’s planned rural infrastructure investments in IFAD12. Management expanded on IFAD’s plan to respond to the increasing demand for rural infrastructure, which would focus on inclusive infrastructure while complementing other institutions’ investments. It would also look at digital infrastructure as a new area of focus for improving access to market opportunities for rural households.
12. Regarding regular grants, Members asked for further clarifications on their role and noted the trade-offs between regular grants and the grant resources available for Debt Sustainability Framework countries. Management outlined the important role that regular grants played for capacity-building, broader partnerships and resource mobilization. As a next step, Management indicated that an informal meeting would be held to provide more information on the regular grant programme. A revised policy would then be presented at the December session of the Executive Board. Several Members also called for more tangible commitments to match the proposed operational approach. Management confirmed that detailed commitments would be included in the draft IFAD12 report for discussion in October, as part of the draft IFAD12 commitments matrix.

## **B. Financial framework and scenarios**

13. The discussion on the financial framework and scenarios reaffirmed Members' support for a robust replenishment and a more diversified resource base to maximize impact.
14. Management highlighted the recent measures undertaken to modernize the financial architecture, including enhanced risk management mechanisms for future replenishment cycles, starting with IFAD12. There was broad consensus on the approach to the proposed financial framework and strong commitment to ensuring the long-term financial viability of the Fund. Members acknowledged that core replenishment resources must remain the foundation of IFAD's finances and that the current situation required increased core funding to maintain or expand IFAD's level of support to the poorest and most debt distressed countries.
15. Members emphasized the importance of borrowing in all the scenarios and the leveraging of core resources through cofinancing and additional resources such as the Private Sector Financing Programme and Adaptation for Smallholder Agriculture Programme + (ASAP+). The draft Integrated Borrowing Framework (IBF), which is scheduled for discussion at the Executive Board in September 2020, was referenced by several Members with some seeking clarifications on the types of borrowing envisaged under the framework. Some Members indicated their willingness to consider sovereign borrowing, including concessional partner loans, and recognized the importance of reaching a conclusion on the IBF so as to determine the overall borrowing envelope and programme of work for IFAD12, as well as resource allocation under IFAD12.
16. With regard to resource allocation, Members reiterated the importance of targeting the poorest, most fragile and debt-distressed countries while maintaining IFAD's universality. A number of Members noted that the Consultation had yet to reach a consensus on the allocation of core resources and that the assumption underlying all scenarios regarding the allocation of core resources required further discussion and agreement. Management confirmed its willingness to establish a second window for borrowed resources and to discuss IFAD12 performance-based allocation system (PBAS) country allocations in the coming weeks with the PBAS Working Group. Additional details on the allocation of resources across income categories and scenarios could then be provided. Some Members questioned whether the size of regular grants could be reduced in the higher scenarios. It was agreed that the volume of regular grants would be further discussed at the third session in October.
17. Several Members suggested that the number of financial scenarios be reduced. There was some support for the highest scenario (scenario E) and no one expressed support for the lowest two scenarios (scenarios A and B). Overall, Members indicated that it was too early to narrow the replenishment to a specific scenario. The President called on the Lists to convene among themselves before the next Consultation session in October to discuss the scenarios to help narrow down the number of scenarios and, ultimately, to avoid gaps between the target and pledges, as had occurred in recent replenishments.

## **C. Results Management Framework**

18. Members noted the presentation of the draft proposed structure of the IFAD12 RMF and planned changes in some of the indicators. Additional indicators were also suggested for inclusion. There were also a few specific comments about the targets for some indicators under the mainstreaming themes, and about the need to include indicators and targets that could track progress against the IFAD12 theory of change. As there was insufficient time to discuss the draft RMF, the Chair asked that Members communicate their comments the following week. It was agreed that an informal meeting on this topic would be held in early September.

**D. Concluding statement**

19. The Chair summarized the highlights of the discussion and outlined next steps, particularly in terms of the upcoming engagements on transition/graduation, the informal meetings on the RMF and regular grants, and the third Consultation session currently scheduled on 19-21 October. He then thanked Member States, the interpreters, and IFAD Management and staff for their contributions to the success of the two meetings of the second session. The President's opening and closing remarks would be shared in writing with Members. The Chair thanked all participants for the constructive and rich dialogue [[link](#)].

## **Summary of the Chairperson: First Meeting of the Second Session of the Consultation on the Twelfth Replenishment of IFAD's Resources**

1. Members of the Consultation on the Twelfth Replenishment of IFAD's Resources (IFAD12), IFAD Management and staff convened on 16 and 17 June 2020 for the first meeting of the second Consultation session to discuss transition/graduation, IFAD12 mainstreaming themes and COVID-19 financial impacts and stress tests. Representatives from the World Bank, African Development Bank, Asian Development Bank and the Green Climate Fund attended as observers.
2. Following introductory remarks by the External Chair, Mr Kyle Peters, the President of IFAD made an opening statement highlighting the serious implications of COVID-19 for human health, economies, poverty and food security. In this context, he reiterated the need for IFAD to double its impact by 2030 and build the resilience of rural people who, in times of crisis, systematically bear a disproportionate part of the burden.
3. During the session, the representative for Egypt announced their pledge to contribute US\$3 million to IFAD12, maintaining their previous level of contribution and reflecting Egypt's unwavering commitment to IFAD's mandate. The Chair expressed his appreciation for this early announcement, especially given the current challenging circumstances.
4. The agenda was adopted without amendment.

### **A. Transition/graduation**

5. Management presented a proposal for a transition/graduation process built upon four pillars. The proposal was based on dialogue with Members over recent weeks and in particular at the informal meeting held on 11 May 2020.
6. Members were appreciative of the updated proposals, in particular the shift to a consultative approach to transition/graduation more in line with other international financial institutions. They felt that it represented a clear improvement on the initial proposal, and expressed their aim to reaching a consensus on this topic.
7. Members acknowledged the rationale for IFAD to focus core resources on low-income countries (LICs) and lower-middle-income countries (LMICs). Members also agreed that IFAD should continue providing appropriate support to upper-middle-income countries (UMICs), given the important role that they play in IFAD's governance, financial sustainability, replenishment contributions and South-South knowledge exchange and technical cooperation (SSTC).
8. Members' views varied on the proposal to allocate 100 per cent of core resources to LICs/LMICs without the assurance that there would be adequate borrowed resources to allocate at least 11 per cent (and up to 20 per cent) of the IFAD12 programme of loans and grants (PoLG) to UMICs. Some Members expressed the view that no core resources should be allocated to UMICs; others were comfortable with Management's proposal to use core resources should the level of borrowed resources be insufficient to reach the IFAD11 level of 11 per cent. There was a request to explore different options for guaranteeing a certain level of funding to UMICs. Members noted that IFAD's ability to mobilize sufficient borrowed resources and the associated financing conditions were critical for reaching a consensus on this issue and highlighted the importance of the Integrated Borrowing Framework (IBF) and the credit rating process for the IFAD12 replenishment. Management responded that borrowed resources would be sufficient if supported by a strong replenishment, a positive credit rating and approval of the IBF. The timing of the credit rating process, however, was not fully within IFAD's control. Management also noted that there would be several opportunities for discussion with the



Executive Board in the coming months that would inform Members on the status and the potential for borrowing.

9. With regard to financing conditions, there was general support for the principle of differentiated pricing for additional borrowed resources, but further clarification was requested as to the terms that would be applied to UMICs, including the likely shorter maturities. Management noted that the credit rating, which is expected to be completed before the end of the IFAD12 Consultation process, would provide further clarity as to the expected financing conditions for UMICs.
10. Members were generally supportive of the proposals to use the country strategic opportunities programmes (COSOPs) as the instruments of dialogue for the transition/graduation process. They were also generally supportive of additional variables being considered for the transition/graduation process. Suggestions were also made for variables more specifically reflective of IFAD's mandate. However, additional information was requested on the time frame for the dialogue process. Members' views on the appropriate time frame for reviewing COSOPs of countries that had reached the graduation discussion income (GDI) differed: some Members suggested that the process could be lengthened while others thought that it could be shortened. Some Members also felt that the COSOPs should contain clear triggers and timelines for the graduation process. Other Members highlighted that the proposed time frame and process were adequate, recognizing that these should be aligned with country planning cycles. Management clarified that COSOPs in IFAD usually cover a period of six years, although they can be longer or shorter to align with country circumstances. It was noted that COSOPs already include a transition strategy for each country and a specific annex reflecting transition/graduation scenarios and a results framework that is reviewed annually and also more formally during a midterm review process. It was also noted that reviews by the Independent Office of Evaluation of IFAD were a prerequisite for the preparation of COSOPs.
11. There was agreement on the need to accommodate reversal of countries that slide back from one income category to another. However, Members had concerns about the option of a buffer for reversals, noting that this would need to be carefully considered given other pressing needs for IFAD financing.
12. As a next step, the Chair proposed to engage with List Convenors and other delegates, in consultation with Management, to seek a way forward. This would enable Management to revert with amendments to the addendum to foster further consensus on this topic.

## **B. IFAD12 Mainstreaming Themes**

13. Management presented a paper on deepening impact and building resilience through mainstreaming in IFAD12. The paper proposed an approach for the treatment of and deeper integration across the four mainstreaming themes, including a proposed way forward on the suggested additional themes of biodiversity, persons with disabilities and indigenous peoples. The paper also discussed how South-South and Triangular Cooperation could be used to support the mainstreaming themes and how results measurement of the mainstreaming agenda could be strengthened, and the approach to mainstreaming themes that would be undertaken in situations of fragility.
14. There was support for the four mainstreaming topics of climate, gender, youth and nutrition and for the proposed way forward on biodiversity, persons with disabilities and indigenous peoples. Members also called for an increase in ambition, while building on lessons learned.
15. Many Members stressed the importance of a sustained focus on innovation and capacity-building at the regional and country levels, particularly in challenging

country contexts. They also wished to see an increased focus on SSTC to support the mainstreaming areas to maximize development impact.

16. Members appreciated IFAD's sharpened focus on operations in situations of fragility and requested additional information on this topic – in particular the nexus between fragility and the mainstreaming themes. It was noted that this aspect would be further discussed in the Business Model and Financial Framework paper during the July session.
17. Members requested increased ambition in the targets and measurement of the results and impact of IFAD's work in the four mainstreaming areas. They also noted the need for continued coordination with strategic partners to maximize impact. Some Members emphasized the need to be realistic and prioritize results based on available capacity and the expected financial resources for IFAD12. Members welcomed Management's proposal to enhance efforts to address biodiversity in conjunction with its climate change and environmental agenda, and highlighted the important role of indigenous peoples in these endeavours. Additional information was requested on how IFAD intended to strengthen its work on biodiversity as part of a proposed strategy. Some Members called for specific commitments on biodiversity, including a request for reporting on IFAD's carbon footprint. Management took note of the request from several Members to better emphasize the context-specific links between agriculture, climate, environment, local culture and traditions in IFAD's projects. With respect to the terminology, IFAD would follow the Committee on Food Security or G20.
18. Some Members felt that the document could have included more details on concrete actions in each area and described how COVID-19 response activities could be linked across mainstreaming commitments to support IFAD's role in improving rural resilience and helping to "build back better". Some Members also requested information about how the Adaptation for Smallholder Agriculture Programme + and the Private Sector Financing Programme would be integrated with the various themes and support the PoLG in this regard. There was a need to ensure that the mainstreaming areas were firmly anchored to both the PoLG and the other facilities.
19. The Chair concluded that Management would hold discussions with Members on their suggestions, including the need to describe how the mainstreaming agenda fits within the overall IFAD12 narrative and its links to indicators and targets in the draft outline of the results management framework to be annexed to the Business Model and Financial Framework paper for discussion in July. The overall outcome of the discussion on the mainstreaming themes will be reflected in the draft replenishment paper to be discussed in October.

### **C. COVID-19 financial impacts and stress tests**

20. Management provided an overview of the expected financial impacts of COVID-19 and the outcome of specific stress tests on borrowing, encashment of contributions, debt distress and loan repayments.
21. Members appreciated the information provided and the reassurance that Management was monitoring the situation closely and maintaining open and transparent communications with its borrowers and Members at this uncertain time.
22. Members reiterated their support for recent financial architecture reforms, and expressed concern about the pressure that the current situation was placing on IFAD's financial situation and the limited buffer currently available to address liquidity shocks. Management noted in its presentation that one effect of the present situation was that the PoLG associated with the IFAD12 replenishment scenarios could be adversely affected. Several Members questioned whether the assumptions underlying the financial stress tests were too optimistic, in particular

the assumptions regarding non-performing loans. Further scenarios regarding the impact on IFAD's proposed borrowing programme were requested. Many Members emphasized that the current financial conditions necessitated a strong replenishment supported by secure access to borrowing to ensure IFAD's long-term financial sustainability and continued support to the poorest countries through the Debt Sustainability Framework. The scenarios presented, though not fully within Management's control, were unlikely to materialize in full, although some combination of them could materialize and this would be closely monitored during the consultations.

23. Overall, it was highlighted that the discussions about the IFAD12 financial scenarios in July should take into consideration these financial sustainability aspects to enable long-term impact and ensure that operational ambitions are matched by expected financing.

#### **D. Concluding statements**

24. The Chair summarized the key highlights of the discussion and outlined next steps, particularly in terms of what would be discussed in July. He then thanked Member States, the interpreters, and IFAD Management and staff for their contributions to the success of the first meeting of the second session. The President stated that, given the time constraints, his closing remarks would be shared in writing with Members. He thanked all participants for the constructive and rich dialogue [[link](#)].