

Document: GC 43/L.2
Agenda: 5
Date: 28 January 2020
Distribution: Public
Original: English

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Investing in rural people

Update on Conversations with IFAD's Governors at the Forty-second Session of the Governing Council

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Governing Council — Forty-third Session
Rome, 11-12 February 2020

For: Information

I. Introduction

1. At the forty-second session of the Governing Council, “conversations with IFAD’s Governors” were introduced as a new way of engaging on issues of key relevance to IFAD’s future. The three issues selected for the session were: IFAD’s financial architecture; engagement with the private sector; and the repositioning of the United Nations development system and its implications for IFAD.
2. A list of guiding questions was shared with Governors prior to the session to facilitate the discussions. Summaries of the conversations can be found in the Governing Council report.¹
3. This document provides an update on developments with respect to the three issues considered.

II. The future of IFAD: Financial architecture

4. In 2019 IFAD made good progress in its drive to transform its financial architecture. The process was kick-started in 2018 with the update of IFAD’s financing terms and the start of the Debt Sustainability Framework (DSF) reform.
5. In line with the recommendations of independent reviews by the Independent Office of Evaluation of IFAD and by the external consulting firm Alvarez & Marsal, IFAD and the Financial Operations Department presented a number of technical topics to the Executive Board for review and approval.
6. The following key measures for the financial sustainability of IFAD were approved:
 - (a) The Capital Adequacy Policy, which will allow IFAD to transition from a liquidity management approach to a capital and liquidity management approach, whereby capital will become a key financial risk management tool to support IFAD’s sustainability;
 - (b) Reform of the DSF, which puts IFAD on a financially sustainable trajectory going forward through the establishment of an up-front funding mechanism and introduction of a new lending term: the super highly concessional loan;
 - (c) Through the DSF reform, the fundamental concept of a Sustainable Replenishment Baseline has been introduced to ensure that IFAD can safely deliver on Member States’ level of ambition without eroding its capital base. The Sustainable Replenishment Baseline is a building block of IFAD’s new financial model and should cover at least (i) the reimbursement of approved DSF commitments; (ii) the pre-financing of new DSF commitments; (iii) IFAD’s regular grant programme; and (iv) operational expenses. Only if the replenishment exceeds the sum of these amounts will IFAD have new funds to finance lending operations. If the new replenishment is not sufficient to cover the mentioned expenses, IFAD will continue eroding its capital base, as is currently the case, and thereby remain on an unsustainable financial trajectory;
 - (d) Establishment of the Controllershship function as a key element of the new second line of defence integrated approach to risk management;
 - (e) The new Anti-Money Laundering and Countering the Financing of Terrorism Policy;
 - (f) Enhancement of IFAD’s Asset Liability Management Framework; and
 - (g) Executive Board approval to proceed with formal talks with rating agencies to pursue a formal credit rating for IFAD. The approval initiated an internal process that will require appropriate preparation by IFAD Management and

¹ The report is available on the Member States Interactive Platform (<https://webapps.ifad.org/members/gc/42>).

operational staff, as well as Executive Board representatives, who could potentially be consulted by credit rating agencies.

7. However, the steps to fully implement the financial architecture transformation are not yet complete. The year ahead will be important for consolidating the measures under way and presenting the remaining necessary ones to the Board for approval. Major measures to be introduced and implemented during 2020 will be IFAD's new Liquidity Policy and the integrated borrowing framework. The potential need for a second allocation mechanism for IFAD's borrowed resources will also be explored.

III. The future of IFAD: Engagement with private sector

8. During 2019 IFAD took bold steps to better position itself to mobilize private finance into poverty reduction and socially and environmentally responsible investments, while keeping in mind its comparative advantage and focus on smallholder farmers, women, youth and marginalized rural populations. These efforts were deployed using a consultative approach involving the Executive Board, Member States, development partners and private sector actors.
9. Several milestones were achieved during 2019, including:
 - (a) Changes to the Agreement Establishing IFAD, approved by the Governing Council in February 2019, to allow IFAD to directly fund private sector entities;
 - (b) Establishment in February 2019 of the Agribusiness Capital (ABC) Fund – an externally managed, independent impact investment fund targeting rural small and medium-sized enterprises and producers' organizations, with a focus on youth and women agri-entrepreneurs. In addition to sponsoring establishment of the ABC Fund, IFAD mobilized a first loss commitment of approximately EUR 50 million from its partners – the European Union/African, Caribbean and Pacific Group, Luxembourg and the Alliance for a Green Revolution in Africa. To date, over 15 investment proposals have been reviewed by the ABC Fund investment committee for projects in Côte d'Ivoire, Ghana, Kenya, Mali and Uganda. The first investment was disbursed in December 2019, supporting a cocoa cooperative in Côte d'Ivoire to help small-scale producers gain better access to markets. Notably, in November 2019, IFAD successfully mobilized approximately EUR 9 million from the Swiss Agency for Development and Cooperation for investment in ABC Fund by IFAD. IFAD is now in the process of preparing the necessary documentation to seek the Executive Board's approval to invest this funding into the first loss equity tranche of ABC Fund as one of IFAD's first private sector operations;
 - (c) Approval of the IFAD Private Sector Engagement Strategy (PSS) (2019-2024) by the Executive Board in September 2019;
 - (d) Operationalization of the Private Sector, Advisory and Implementation Unit (PAI) in May 2019 as an internal champion for engagement and collaboration with the private sector. Efforts are also under way to build the capacity of the unit using IFAD's own staff and external experts. In addition, IFAD has successfully mobilized two junior professional officers, funded by the Governments of Germany and Switzerland respectively, to support PAI (one officer assumed duty upon creation of the unit; the other will begin in February 2020). In addition, an experienced expert in private sector engagement – who is a Swedish national – will join PAI in the summer of 2020; and
 - (e) Preparation of a first proposal describing the strategic orientation and implementation modalities for IFAD's Private Sector Financing Programme, designed to operationalize the PSS. Feedback and guidance were sought on

this proposal from representatives at the Executive Board retreat in October 2019.

10. Moving forward, IFAD will sustain its efforts to fully embed private sector financing activities into its country programmes, with the aim of achieving greater impact on rural poverty and hunger. This will entail a number of measures, including the approval of a framework for IFAD non-sovereign private sector operations to define the approach and rules on critical strategic topics to guide IFAD's private sector funding activities; capacity-building for IFAD staff; and setting up of internal systems to support the review, screening, approval, implementation and monitoring of private sector investments.

IV. Repositioning of the United Nations development system and its implications for IFAD

11. IFAD has been actively engaged in the development of a spectrum of United Nations reform products following the adoption of General Assembly resolution 72/279 in May 2018, which triggered the repositioning of the United Nations development system (UNDS) to enhance effectiveness in the delivery of the 2030 Agenda. IFAD is ready to engage fully in the implementation of the reform products. These products constitute the primary mechanism for the UNDS to support Member States' national development plans towards achievement of the Sustainable Development Goals (SDGs). For IFAD, this will mean increasingly proactive engagement with UNDS partners – primarily the Rome-based agencies (RBAs) – as the lead entity cluster for the delivery of SDG2, specifically focused on ending hunger, improving food security and nutrition, promoting sustainable food production, and increasing the well-being of rural poor people.
12. IFAD staff have engaged at all levels in a collective effort with peers in the UNDS entities (in coordination with the Executive Office of the Secretary-General and the Transition Team for the UNDS) in developing new instruments to ensure that the UNDS works coherently, particularly in-country and at the subregional and regional levels. These include the System-Wide Strategic Document, a new regional approach and new multi-country offices.
13. IFAD's engagement in the United Nations reform process also entails leveraging partnerships with other development actors, including governments, the private sector, civil society and international financial institutions. The United Nations reform has provided a unique opportunity to strengthen RBA collaboration for better results on the ground and for the RBAs to work closely together on matters related to food security, nutrition, agriculture, and rural and food systems transformation.
14. Among the reform products developed by IFAD are specific guidelines on how the Programme Management Department and IFAD Country Offices (ICOs) will engage in the new United Nations Sustainable Development Cooperation Framework (UNSDCF) that is being introduced in all United Nations programme countries. In the context of these new frameworks, where relevant, IFAD will actively cooperate with RBAs on common country analyses of overlapping objectives and actions relative to SDG2 during the development of IFAD country strategic opportunities programmes.
15. Similarly, the RBAs are continuing to explore opportunities for joint programmes. Areas for collaboration and partnership have been identified through inter-agency consultations. The RBAs are exploring pooled funding opportunities that may present the possibility of financing joint activities. The agencies will continue to be guided by and be accountable for their individual country strategic plans/results frameworks, while the joint plans will support a strategic collective vision and the broader UNSDCFs. In countries with limited IFAD country representation, the Food and Agriculture Organization of the United Nations and World Food Programme will highlight IFAD priorities in United Nations country team deliberations.

16. Finally, through the work of the Business Innovations Strategic Results Group of the SDGs, new tools and approaches to country-level coherence are being rolled out. For example, the mutual recognition statements now signed by IFAD along with 16 other United Nations entities will enable the signatories to use or mutually rely on each other's policies, procedures, systems, contracts and related operational mechanisms. This is expected to greatly increase operational agility by removing the need to review other providers' different policies and procedures before entering into a service agreement.
17. IFAD is developing a corporate engagement strategy to enter into a business operations strategy (BOS) at the country-level. Such business operations strategies are demonstrably improving cost efficiency, enabling United Nations entities working together at the country level to reduce duplication. From IFAD's standpoint, a BOS will allow it to leverage collective purchasing power and maximize economies of scale. The internal IFAD corporate strategy is currently being developed by the Field Support Unit, the Global Engagement Partnership and Resource Mobilization Division and the Programme Management Department, with input also from ICOs. The aim is to join the BOS initiative at the country level by signing a strategy in countries where it has a field presence.