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Investing in rural people

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

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

Rome, 19-20 October 2017

For: Information

Summary of the Chairperson: Third 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 from the World Bank and African Development Bank, and guests met at IFAD headquarters in Rome on 19 and 20 October 2017 for the third session of the IFAD11 Consultation.
2. The following papers, prepared by IFAD Management, were reviewed and discussed: (i) Report on the IFAD11 Results Management Framework; (ii) Financial Framework and Financial Scenarios for IFAD11; (iii) IFAD11 – Leveraging Partnerships for Country-Level Impact and Global Engagement; (iv) Mainstreaming of Climate, Gender, Nutrition and Youth; (v) Draft Report on the Eleventh Replenishment of IFAD's Resources; and (vi) Draft Resolution on the Eleventh Replenishment of IFAD's Resources. The Independent Office of Evaluation of IFAD (IOE) also made a presentation on the 2017 Annual Report on Results and Impact of IFAD Operations.

II. Summary of discussion

Opening remarks and adoption of the agenda

3. Introductory statements were made by the External Chair and the President of IFAD. Members of List C delivered a joint statement noting the importance of achieving a higher replenishment target for IFAD11 and retaining the universal nature of IFAD. Members then adopted the agenda without amendment.

2017 Annual Report on Results and Impact of IFAD Operations, Report on IFAD's Development Effectiveness, and IFAD11 Results Management Framework
4. Members welcomed the paper and the presentations made by IOE and Management, and highlighted the importance of IOE findings with regard to efficiency, effectiveness and sustainability. Members recognized the efforts being made to improve harmonization of IOE ratings and IFAD self-assessment ratings and requested that in future Management seek to make greater use of IOE data. Members expressed support for the revised structure and approach of the Results Management Framework (RMF), and the linkages to the Sustainable Development Goals (SDGs), the IFAD Strategic Framework and the IFAD11 Commitment Matrix.
5. Members generally supported the choice of RMF indicators and targets, and appreciated their disaggregation by gender and age and incorporation of other IFAD11 priorities. Members requested that the cofinancing target be disaggregated to distinguish between international and domestic counterpart cofinancing, and that ways of measuring private sector resource mobilization be explored. Management took note of these and other requests – including for indicators and targets relating to land, nutrition, climate, efficiency, disability, sustainability, utilization of performance-based allocation system allocations, risk management, transparency and degree of impact – and agreed to incorporate the changes and additional indicators and targets to the extent that it was technically feasible. Management also took note of the request to disaggregate the allocation of core resources between low-income countries and lower-middle-income countries, and by lending terms. Management took note of requests to better articulate the framework's linkage to rural transformation and of the words of caution regarding the need to avoid an excessive increase in the number of indicators in the RMF.

Financial Framework and Financial Scenarios for IFAD11, and effective foreign exchange rates for use in IFAD11

6. IFAD11 scenarios. Members recognized the importance of IFAD's work in achieving the SDGs, and in responding to recent increases in global hunger. Members expressed their appreciation for the three financial scenarios, recognizing Management's efforts to balance realism with ambition. Though some noted their concern that the central scenario may still be too ambitious in view of exchange rate trends and budgetary constraints of Member States, others expressed strong support for the central and higher scenarios.
7. Management confirmed that there were no demand or capacity constraints to achieving the three scenarios and urged representatives to advocate in their capitals for the central or higher scenario. Management concluded that it had the Membership's support to aim for the central scenario at this stage. A final decision on the appropriate programme of loans and grants and contribution targets would be taken at the fourth session of the Consultation, in December.
8. Borrowing in IFAD11. Members supported Management's efforts to broaden and diversify IFAD's funding base, and to integrate borrowing into the financial framework. Members generally supported the Concessional Partner Loan (CPL) Framework, noting that it was based on the International Development Association approach and sought to ensure additionality and to balance the interests of CPL lenders, the Fund and its other Member States. Members noted the importance of timely approval of the CPL Framework, including the discount rate for computation of the grant element, while acknowledging the reservations expressed by a few Members. Members noted that the CPL Framework could be revisited for IFAD12.
9. Members requested that Management focus strongly on building internal risk management capacity and developing a risk management framework, and noted the importance of external reviews or audits of IFAD's risk management systems.
10. Market borrowing. Members expressed support for the updated financial strategy road map. They noted that during the IFAD12 Consultation they would have the opportunity to assess progress in preparations for market borrowing and that any decision to proceed with market borrowing would be subject to Governing Council approval in 2021. Management highlighted the importance of Members' strong support to IFAD's engagement in market borrowing, and committed to keeping the Membership fully informed during the implementation of the road map through the existing mechanism of the Audit Committee, with regular updates to the Executive Board, and other consultations with the Membership organized as necessary. The need for other mechanisms for consultation with Member States regarding market borrowing – whether through a working group or another approach – would be discussed by Convenors and Friends.
11. Members stressed the importance of a full analysis of the risks, benefits and trade-offs of market borrowing, including long-term projections and stress tests. In order to fully address the feedback of the IFAD11 Consultation, Management proposed to reschedule submission of the market borrowing feasibility study from December 2017 to April 2018.
12. Members highlighted the important linkages between the transition framework and eventual market borrowing and expressed their great interest in the Approach Paper to a Transition Framework that would be presented to the Executive Board in December.
13. IFAD11 exchange rate. Members agreed to maintain the existing methodology for establishing the replenishment exchange rate (based on a 6-month average from April to September 2017). It was agreed that a review of the current methodology used for exchange rate calculation be carried out and presented not later than the first session of the IFAD12 Consultation.

14. Debt Sustainability Framework (DSF). Members supported Management's recommendation to maintain the existing framework and encouraged close monitoring of developments in other international financial institutions (IFIs), noting that increases in the number of countries in debt distress could result in higher demand for DSF grants. Members requested that Management explore ways in which future DSF compensation amounts could be contained, including through another future review of the DSF and the IFAD grant policy.

Mainstreaming of Climate, Gender, Nutrition and Youth

15. Members expressed strong support for the overall approach to mainstreaming nutrition, gender, youth and climate, all of which were topics at the heart of the SDGs. The introduction of youth and youth employment as a new mainstreaming theme was particularly appreciated, and Members supported the proposed initiatives in this area. Members urged particular focus on young rural women, including young indigenous rural women. In line with the shift towards transformative approaches, Members urged Management to set ambitious targets for the mainstreaming themes and develop new action plans for climate change/environment and youth, and to be clear on how the existing and new action plans would be financed and implemented. In this regard Members requested that the mainstreaming themes be more clearly reflected in the RMF. Members noted that the proposed approach would also address drivers of distress migration and urged that this be given greater visibility, especially as regards rural youth.
16. Members noted that these themes are also priorities for other agencies, and urged Management to collaborate closely with the Rome-based agencies (RBAs) and others in developing and implementing an integrated, transformative mainstreaming agenda. Members noted the importance of engaging in the Committee on World Food Security's discussions of these topics, and of using IFAD's position in related global policy forums to influence the global agenda. Members also highlighted the importance of decentralization to support the mainstreaming agenda, as this would facilitate engagement with governments and development partners on these issues.

Leveraging partnerships during IFAD11

17. Members expressed strong support for the overall approach to leveraging partnerships during IFAD11. They stressed the importance of a strategic and selective approach to partnerships, and supported the development of strategic plans for partnerships and cofinancing, and the updating of IFAD's private sector strategy. Members recognized the importance of decentralization for partnerships in view of the need for differentiation by country context. They noted the significant role to be played by country directors in this regard, and stressed the need for appropriate incentives and resources for country teams. Members appreciated Management's commitment to improving the monitoring of partnerships and the measurement of their results.
18. Members endorsed effective collaboration with other IFIs, the RBAs and the broader United Nations system, especially in connection with the current United Nations reform process. They also highlighted the potential for collaboration with bilateral agencies and research institutions, including as a means of increasing IFAD visibility. Members expressed their support for strengthening partnerships with the private sector, including through the public-private-producer partnership mechanism, and looked forward to receiving further information on the Smallholder and Small and Medium-Sized Enterprise Investment Finance Fund. Members also supported the proposals for increased focus on South-South and Triangular Cooperation (SSTC) and requested additional information regarding the proposed SSTC facility.
19. Management provided additional information to Members on many of the issues raised and noted, inter alia, that a new private sector strategy would be prepared

in 2018; that international cofinancing and domestic targets would be disaggregated in the RMF; and that IFAD was fully engaged with the United Nations reform process.

Draft Report on the Eleventh Replenishment of IFAD's Resources

20. Management presented the draft report and provided feedback with regard to the earlier discussion of the RMF. Members expressed their overall support for the 10 key messages of the presentation, including the focus on fragility as a cross-cutting issue. Members agreed with the structure and tone of the paper, highlighting that the executive summary would be particularly important for decision makers in capitals, and that migration could be highlighted more strongly in the report.
21. With regard to other elements of the report:
 - (a) Members expressed support for the share of core resources to be allocated to different country groups, including the allocation of 90 per cent of core resources to low-income and lower-middle-income countries¹. This allocation could be revisited in IFAD12, in light of progress with regard to market borrowing. Members requested clarification on the degree of flexibility that would be applied to this allocation; whether the share for fragile situations represented a ceiling; and the application of the country selectivity criteria in practice.
 - (b) Members reiterated their support for decentralization, but noted the importance of ensuring adequate internal control systems.
 - (c) Members also supported the establishment of the project preparation advance facility, especially for countries with fragile situations, and requested clarification on its financing.
 - (d) Management agreed to consider the requests regarding the Commitment Matrix where appropriate, including for commitments relating to disaggregating results data for people with disabilities; risk management and internal control systems; the United Nations Secretary-General's report on the eradication of sexual exploitation; IFAD's engagement with United Nations reform; and the full implementation of the strategy for engagement in fragile situations.

Draft Resolution on IFAD11

22. Members provided comments on the revised draft IFAD11 resolution, including with regard to the timing and responsibility for decisions regarding market borrowing and the timing for approval of required amendments to the Agreement Establishing IFAD, and requested clarification on a number of further items. Management took note of these comments and provided the requested clarifications.
23. Management agreed to defer to the IFAD12 Consultation the proposed changes in the Agreement Establishing IFAD that would empower IFAD to borrow in the capital markets. Members supported Management's proposal to explore alternative ways to express strong Membership support for the preparation process for IFAD's market access, in particular for its efforts to obtain a strong credit rating, possibly in the IFAD11 resolution.
24. One Member noted that it was its intention to provide 30 per cent of its IFAD11 contribution as a contingent contribution, similar to the approach taken in IFAD7

¹ The terms "ODA resources" and "core resources" were used interchangeably in documents submitted to the 3rd session of the Consultation. However, to avoid confusion only the term "core resources" will be used in future. The following definition is provided in the updated version of the IFAD11 replenishment Report [IFAD11/4/R.2]: "*Core resources is a definition adopted by IFAD to describe core replenishment contributions, unrestricted complementary contributions, repayments of principal and interest received from lending these resources, as well as the grant component of concessional partner loans.*"

and IFAD8. Management agreed that the possibility to provide contingent contributions would be included in the next version of the resolution for discussion with Members.

25. Management confirmed that comments received on the papers presented to the third session, as well as on the draft report itself, would be integrated into the next version of the IFAD11 report and resolution to the extent possible. These would be published on the Member States Interactive Platform for comments for two weeks before finalization of the report and resolution and their submission to the fourth session in December.
26. Management also noted that additional opportunities for discussion of any outstanding issues could be organized as necessary in advance of the fourth session.

Concluding statements

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