

# **REPLENISHMENT**

## **PRESENTATION TO THE AD HOC WORKING GROUP ON GOVERNANCE**

**15 December 2015**

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# OVERVIEW

- ❖ **Current cycle**
- ❖ **Consultation phase**
- ❖ **A longer cycle?**
- ❖ **Comparator institutions**
- ❖ **Extension**
- ❖ **Potential effects**
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  - *Adequacy of funding for development*
  - *Efficiency of process*
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  - *Impact of other IFIs' replenishments*
- ❖ **Preliminary conclusions**

# CURRENT CYCLE

- Currently the total replenishment cycle is **5 years**:
  - ❖ **one year for consultation (C),**
  - ❖ **one year for replenishment to become effective (E), and**
  - ❖ **three years for implementation (I).**
- The **first two years overlap** with the last two years of the previous cycle.

|         | 08 | 09 | 10 | 11 | 12 | 13 | 14 | 15 | 16 | 17 | 18 |
|---------|----|----|----|----|----|----|----|----|----|----|----|
| IFAD 8  | C  | E  | I  | I  | I  |    |    |    |    |    |    |
| IFAD 9  |    |    |    | C  | E  | I  | I  | I  |    |    |    |
| IFAD 10 |    |    |    |    |    |    | C  | E  | I  | I  | I  |

# CONSULTATION PHASE

- The consultation process is a **phase of dialogue between IFAD and its Members** during which IFAD:
  - ❖ **reports** on its past and current results, strategies and reforms;
  - ❖ **seeks guidance** for the medium-term (**priorities and programmes**); and
  - ❖ **mobilises resources** for the next replenishment period.
- The consultation process includes **four meetings**, the first of which is used to present the **Mid Term Review (MTR)** for the current replenishment period.
- All consultation meetings are held at **headquarters**.
- Since 2011, all consultation meetings are chaired by an **external chair**.
- Each consultation process is **concluded with a report and resolution** which are submitted for approval by the Governing Council.
- The report and resolution together document an agreement on IFAD's **strategic priorities, programme of loans and grants, and funding modalities, including pledges**, to finance IFAD's activities during replenishment implementation period.

# A LONGER CYCLE?

Among other replenishment issues, the **length** of the cycle is under review:

- ❖ “The **duration of the replenishment** and ways to broaden IFAD’s engagement with its membership in the process are issues that need further study.” (CLER, 2014, Executive Summary, paragraph 23)
- ❖ “An inter-Consultation working group will be established to consider governance issues. In particular, the working group will: [...] review and assess the composition and representation of the replenishment consultation and **the length of replenishment cycles** in IFAD11 and beyond.” (Terms of Reference of the Ad Hoc Working Group on Governance Issues, paragraph 4)
- ❖ “The replenishment process for concessional resources of the multilateral development banks is **broken**. [...] So what’s to be done? We recommend the following measures **to fix the replenishment consultation process**: [...] Reduce the number of meetings for each replenishment round to no more than three and **lengthen the replenishment period from three to four years or more.**” (Johannes F. Linn and Anil Sood, Brookings, September 2015)

# COMPARATOR INSTITUTIONS

| <b>IFAD and comparators</b>   | <b>Cycle</b> | <b>Extension</b>        | <b>When</b>  |
|---|--------------|-------------------------|--------------|
| <b>International Fund for Agricultural Development (IFAD)</b>       | 3 years      | Under review            | 2015         |
| <b>African Development Fund (AfDF)</b>                              | 3 years      | Considered and rejected | 2009<br>2015 |
| <b>Asian Development Fund (AsDF)</b>                                | 3 years      | 4 years                 | 1979         |
| <b>European Development Fund (EDF)</b>                              | 5 years      | 6 years<br>7 years      | 2008<br>2014 |
| <b>Global Environment Facility (GEF)</b>                            | 4 years      | –                       | –            |
| <b>Global Fund to fight AIDS, tuberculosis, and malaria (GFATM)</b> | 3 years      | –                       | –            |
| <b>International Development Agency (IDA)</b>                       | 3 years      | Considered and rejected | 2001         |

# COMPARATOR INSTITUTIONS

## IDA 2001

“The balance of opinion seemed to be that **retaining the three-year cycle in IDA13 was the preferred course at this time.** Several noted, however, that there could be merit in revisiting the issue later in the replenishment process.” (IDA, Three-Year or Four-Year Replenishment Cycle, Results of Consultation with Donors, January 2001)

## AfDF 2009

“Management proposes to **maintain the 3-year replenishment cycle for ADF-12 2011-2013) but to consider introducing a 4-year cycle as of ADF-13 (2014-2017),** to be discussed and confirmed during the ADF-12 or ADF-13 replenishment discussions.” (AfDF, Options to improve the cost-effectiveness of the replenishment process, 2009)

## AfDF 2015

IDEV Recommendation 3: “Moving to a longer replenishment cycle, drawing on the experience of AsDB” (AfDB, Independent Evaluation of GC VI, ADF12 and 13 Commitments, September 2015) - Management response: “There currently are different perspectives on lengthening ADF replenishment cycles from three to four years. [...] **Management’s view at this time is to retain the 3-year cycle for at least ADF-14, with the view of revisiting the issue later.**”

# EXTENSION

## A four year cycle for IFAD?

- “The three-year replenishment cycle has never been seriously questioned; yet a **four-year cycle**, as that used in the AsDF, **might have some advantages**. [...] Judging by responses to interviews and the survey for this evaluation, several **respondents from all three Lists felt their government would not have strong reservations to a possible four year replenishment.**” (CLER, 2014, Report paragraph 89).
- The **first two years would still overlap** with the last two years of the previous cycle:

|                   | 14 | 15 | 16 | 17 | 18 | 19 | 20 | 21 | 22 | 23 | 24 | 25 | 26 |
|-------------------|----|----|----|----|----|----|----|----|----|----|----|----|----|
| IFAD 10 (3 years) | C  | E  | I  | I  | I  |    |    |    |    |    |    |    |    |
| IFAD 11 (4 years) |    |    |    | C  | E  | I  | I  | I  | I  |    |    |    |    |
| IFAD 12 (4 years) |    |    |    |    |    |    |    | C  | E  | I  | I  | I  | I  |



# EFFECTS OF A LONGER CYCLE

A **longer** cycle may **have positive, neutral** or **negative** effects on:

- ❖ the **level** of replenishments
- ❖ the **adequacy** of funding for development programmes
- ❖ the **efficiency** and **cost** of the replenishment process
- ❖ the **dialogue** with members
- ❖ the **coordination** with replenishments in other institutions

# LEVEL OF REPLENISHMENTS

- A longer replenishment cycle **may** have a negative effect on the level of replenishments **if donors' pledges on an annualised basis are not scaled up proportionally**. This potential effect was considered at **IDA** and **AfDF** when they considered the extension of their cycle to 4 years:

“Most donors took the view that the key consideration for changing the replenishment cycle would be the likely effect on **the level and stability of IDA resources**. [...] Some donors were unsure that a change to a longer cycle would in practice be accompanied by a fully proportional increase in budgetary allocations and hence in the volume of IDA replenishments; **for these donors a change in the replenishment cycle could carry the risk of a relatively lower volume of IDA resources on a per annum basis.**” (IDA, Three-Year or Four-Year Replenishment Cycle, Results of Consultation with Donors, January 2001)

“Some donors have indicated that increasing the length of the ADF cycle to four years might lead to lower resources on an annual basis.” (AfDB, Independent Evaluation of GC VI, ADF12 and 13 Commitments, September 2015, Management Response)

# LEVEL OF REPLENISHMENTS

- However this risk that donors downscale their contributions on an annualised basis did **not** materialise at the **AsDF** and the **EDF** when their cycles were extended:

|        | Years     | Duration | Volume per year  | Increase /previous cycle |
|--------|-----------|----------|------------------|--------------------------|
| AsDF 2 | 1976-1978 | 3 years  | \$ 0.415 billion | -                        |
| AsDF 3 | 1979-1982 | 4 years  | \$ 0.5 billion   | 20%                      |
|        | Years     | Duration | Volume per year  | Increase /previous cycle |
| EDF 9  | 2003-2007 | 5 years  | € 2.76 billion   | -                        |
| EDF 10 | 2008-2013 | 6 years  | € 3.78 billion   | 37%                      |
| EDF 11 | 2014-2020 | 7 years  | € 4.35 billion   | 15%                      |

- ➔ At this stage there is **no evidence or indication** that extending the cycle to four years would have a negative effect on the level of replenishments.

# LEVEL OF REPLENISHMENTS

- ↘ A longer replenishment cycle **may** have a negative effect on the level of IFAD resources if donors who fail to contribute (or contribute little) in a replenishment wait until the next replenishment to restore their contribution to past levels (or above).
- On the other hand, donors who have contributed more than usual in a given replenishment are “**locked in**” for a longer period.

# ADEQUACY OF FUNDING

A longer replenishment cycle , e.g., 4 years, might have **positive and negative effects** on the **provision of adequate funding for development programmes**:

- As shorter funding cycles constitute a challenge to long-term development planning, a longer replenishment cycle would be likely to make it **easier to match funding** with country programmes.
- As IFAD's recipient countries are not allowed to carry over unused allocations from one replenishment cycle to the next, a longer replenishment cycle would allow more time for the countries concerned to explore appropriate venues for the **use of uncommitted funds** by the deadline.
- A longer cycle might increase the **unpredictability of funding** as IFAD's donors are less disciplined in respect of amounts, burden-sharing and timing of contributions than in other institutions (e.g., IDA, AfDF, AsDF). This may increase the possibility of further borrowings.

# COST EFFICIENCY FOR IFAD

- For **IFAD**, a 4 year replenishment cycle would entail **fewer replenishment consultation meetings** overall, namely three consultation periods over twelve years, bringing about savings in IFAD's direct costs.
- The direct costs of replenishments could be **further lowered** by reducing the number of consultation **meetings from 4 to 3**, following AfDF's and AsDF examples.

| Cycle   | Over 12 Years    | No. of Meetings p.a. | Direct costs per replenishment | Total direct costs over 12 years | Savings over 12 years |
|---------|------------------|----------------------|--------------------------------|----------------------------------|-----------------------|
| 3 years | 4 replenishments | 4                    | US\$ 1,000,000                 | US\$ 4,000,000                   | <b>0%</b>             |
| 3 years | 4 replenishments | 3                    | US\$ 750,000                   | US\$ 3,000,000                   | <b>25%</b>            |
| 4 years | 3 replenishments | 4                    | US\$ 1,000,000                 | US\$ 3,000,000                   | <b>25%</b>            |
| 4 years | 3 replenishments | 3                    | US\$ 750,000                   | US\$ 2,250,000                   | <b>45%</b>            |

# EFFICIENCY FOR MEMBERS

## Costs

- For **IFAD Members**, a 4 year replenishment cycle would also entail savings in direct costs.
- ➔ However, as almost all replenishment consultation meetings take place at IFAD's headquarters, such savings would be limited for those members who appoint their Executive Directors as replenishment Deputies.

## Budgetary and legislative procedures

- ➔ It is likely that a longer replenishment cycle can be accommodated by donors' budgetary and legislative procedures. **“No issue** was raised with respect to donors' budgetary and legislative procedures. Most donors would have no difficulty of this type in moving to a four-year cycle. **For some, the budgetary and legislative processes are on a yearly cycle while for others, there is flexibility in their internal processes to accommodate a change to a four year cycle.”** (IDA, Three-Year or Four-Year Replenishment Cycle, Results of Consultation with Donors, January 2001)

# DIALOGUE BETWEEN IFAD & MEMBERS

A longer replenishment cycle could have positive or negative effects on the quality of the dialogue between IFAD and its Members:

- If the MTR meeting continues to be the first meeting of the consultation period, this would result in a **more meaningful MTR**, as the current replenishment would be in its third year of implementation.
- ➔ If the MTR meeting is held as a **stand-alone event** several months prior to the start of the consultation period (i.e., in the second year of implementation), the advantage may not be as great.
- There would be **fewer opportunities** for a **substantial dialogue** between Bank Management and Members.
- **Longer intervals between consultation processes** would provide less frequent occasions to react to new circumstances and policy changes.



# IMPACT OF OTHER REPLENISHMENTS

IFAD's replenishment consultation usually takes place in **the year following the completion of IDA and AfDF's own processes:**

|              | Replenishment period |                        | When negotiations took place | Number of meetings |
|--------------|----------------------|------------------------|------------------------------|--------------------|
| <b>IFAD</b>  | IFAD 10              | 2016 to 2018           | Feb. 2014 to Dec. 2014       | 4                  |
| <b>AfDF</b>  | AfDF 13              | 2014 to 2016           | Feb. 2013 to Dec. 2013       | 3                  |
| <b>AsDF</b>  | AsDF 11              | 2013 to 2016           | Sep. 2011 to May 2012        | 3                  |
| <b>EDF</b>   | EDF 11               | 2014 to 2020           | June 2011 to June 2013       | –                  |
| <b>GEF</b>   | GEF 6                | July 2014 to June 2018 | Apr. 2013 to Apr. 2014       | 4                  |
| <b>GFATM</b> | GF4                  | 2014 to 2016           | Mar. 2013 to Dec. 2013       | 2                  |
| <b>IDA</b>   | IDA 17               | July 2014 to June 2017 | Mar. 2013 to Dec. 2013       | 4                  |

# IMPACT OF OTHER REPLENISHMENTS

With a 4 year cycle, IFAD's consultation would **no longer follow IDA and AfDF processes**. Would that have **an impact on IFAD's replenishments**?

- Unlike AfDF's replenishments, IFAD's are already **de-linked from IDA's**.
- "It is an open question to what extent an individual donors' increased contribution in one replenishment may be offset by a smaller allocation to another replenishment – are they **“communicating vessels”**? Allocation decisions are made based on many different factors, and approaches to how funds are allocated vary across donor governments. While unclear what the implications of a higher or lower replenishment in one institution has on the size of other institutions' replenishments, there is however clearly a **“policy diffusion”** in terms of issues, by the mere fact that many participants are the same, and that replenishments address issues that are on the current global agenda.” (CLER para 41)

# PRELIMINARY CONCLUSIONS

- ❖ Extending the **length** of the replenishment cycle may not be the only issue to consider.
- ❖ It should be considered in conjunction with a **reduction in the number of consultation meetings**.
- ❖ It could be part of a **broader reform** of the consultation process, including:
  - focusing on **fewer strategic issues**;
  - reducing the **number of commitments**;
  - deciding that there will be **no more than five documents prepared** for each consultation process (including the MTR and the resolution); and
  - using IFAD's **digital platforms more effectively** (and creating new ones if appropriate) to carry out, between replenishment consultations, a substantive dialogue between IFAD Management and Members' capitals.

# **REPLENISHMENT**

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