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Investing in rural people

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

Note to Transition Framework Working Group members

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

1. The second meeting of the Working Group on the Transition Framework was held on 28 June 2018; the discussions are summarized in this document.
2. As 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, France, Germany, India, Indonesia, Italy, Kuwait and the United Kingdom. The Working Group member for Cameroon communicated regrets. Executive Board observers from Angola, Canada, China, Dominican Republic, Mexico, Nigeria and Switzerland were also present. IFAD was represented by the Associate Vice-President, Programme Management Department; the Director, Financial Management Services Division; the Director, West and Central African 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 2018/2/W.P.1, contained six items: (i) Opening of the meeting; (ii) Adoption of the agenda; (iii) Programme of Work of the Working Group on the Transition Framework for 2018; (iv) Terms of Reference of the Transition Framework Working Group, which included four sub-items: (a) Phasing-out/phasing-in (Terms of Reference, paragraph 7(i)), (b) Cofinancing analysis and strategy (Terms of Reference, paragraph 7(ii)), (c) Regional lending operations (Terms of Reference, paragraph 7(iii)), (d) Revised guidelines and procedures for results-based country strategic opportunities programmes (Terms of Reference, paragraph 7(iv)); (v) Minutes of the first meeting of the Transition Framework Working Group; and (vi) other business.
5. The Working Group adopted the agenda without any changes.

Agenda item 3: Programme of Work of the Transition Framework Working Group for 2018 (document TFWG 2018/2/W.P.2)

6. The Working Group approved the proposal to hold its third meeting on 23 July rather than on 26 July and to convene a joint meeting with the Working Group on the Performance-Based Allocation System (PBAS) on 8 October.
7. One member noted the importance of holding a joint meeting also with the Audit Committee given the ongoing discussions on the financial architecture of the Fund and the harmonization of financing terms. The Chairperson of the Audit Committee would be invited to the third meeting of the Working Group and the possibility of a joint meeting with the Committee on 8 October would be explored. Management confirmed that the Associate Vice-President, Financial Operations Department, would be invited to participate in the third meeting.

Agenda item 4: Terms of Reference of the Working Group on the Transition Framework

8. Under this item, the Working Group considered the following aspects of the Terms of Reference, based on documentation and presentations shared by Management:
 - (a) Phasing-out/phasing-in (Terms of Reference, paragraph 7(i));
 - (b) Cofinancing analysis and strategy (Terms of Reference, paragraph 7(ii));
 - (c) Regional lending operations (Terms of Reference, paragraph 7(iii)); and
 - (d) Revised guidelines and procedures for results-based country strategic opportunities programmes (Terms of Reference, paragraph 7(iv)).

9. Following extensive discussions, the Working Group endorsed the documents presented by Management, inclusive of the recommendations contained therein and the additional points discussed by the Working Group in the feedback provided. Such feedback is briefly summarized below.
 - (a) Phasing-out/phasing-in (TFWG 2018/2/W.P.3)
10. Members welcomed the Technical Note on the Phasing-out/Phasing-in Mechanism. The note was based on the principles agreed in the approach paper and was submitted to the first meeting but not discussed. It was now being redistributed for discussion by the Working Group as requested. Members made the following comments:
 - (i) Elements of the technical note, particularly regarding financial strategy, should be included in the Transition Framework and in the new procedures and content for country strategic opportunities programmes (COSOPs).
 - (ii) Regarding the estimates of financial implications, a member queried the choice of a liquidity analysis over a cost analysis. Management clarified that the analysis focused on the mechanism's impact on liquidity as this was a more relevant driver for IFAD than income, and the main objectives were to achieve financial sustainability rather than generate profit. Since only five countries are expected to transition from highly concessional terms to blend terms in the Eleventh Replenishment of IFAD's Resources (IFAD11) period, significantly higher costs were not foreseen. Additionally, Management clarified that the mechanism would be implemented once during a replenishment cycle, and would apply to IFAD11 and to subsequent replenishment cycles subject to any revisions based on lessons learned in IFAD11.
 - (iii) A formal review of the experience of implementing the mechanism could be carried out in the context of the IFAD12 Consultation and the findings included in the document. Management agreed with this suggestion.
 - (iv) The importance of flexibility was highlighted. It needed to be managed to avoid jeopardizing the incentive for borrowers. Management confirmed that possible exceptions were included but that these would be reviewed case by case, and would be subject to approval by the Executive Board. Management emphasized that flexibility would be accompanied by an emphasis on predictability and transparency.
11. The mechanism would apply to all projects submitted to the Executive Board for approval in a given replenishment cycle. The Transition Framework – being a living document – could be reviewed during replenishment consultations. It was confirmed that the topic of accelerated repayments for transitioning countries on a voluntary basis was being considered, and would be presented to Senior Management for review by year-end.
12. The Working Group endorsed the document with the understanding that the following point would be added to the recommendation box: that a formal review of the implementation experience with the mechanism may be carried out in the context of the IFAD12 Consultation.
 - (b) Cofinancing analysis and strategy (document TFWG 2018/2/W.P.4)
13. Management presented the following highlights:
 - (i) The strategy would demonstrate ways to systematize successful partnerships building on experience, data and evidence;
 - (ii) The roles and responsibilities relative to the cofinancing agenda would be included in the action plan;

- (iii) An agreed methodology for measuring in-kind contributions from governments, beneficiaries and the private sector would be included in the strategy;
 - (iv) The strategy would include a methodology to cascade the corporate targets established for IFAD11 into regional targets and indicative country targets within each region. These regional and indicative country targets would be used for internal accountability and planning;
 - (v) Stocktaking analysis of other international financial institutions (IFIs) revealed that no other IFI had an institutional cofinancing strategy. IFAD would, however, strengthen its work with other IFIs to identify opportunities for cofinancing;
 - (vi) Discussions on cofinancing must not be limited to ministries of agriculture: ministries of finance should be involved and also the ministry responsible for implementing the project.
14. The discussion highlighted that the strategy should:
- (i) Include a stronger link to the IFAD11 commitment on cofinancing that goes beyond just the cofinancing target, and set out a medium-to-long term vision for IFAD cofinancing in order to emphasize IFAD's role – as envisaged in the business model – as that of an assembler of development finance;
 - (ii) Explain which sources of cofinancing should be prioritized;
 - (iii) Highlight the link between the decentralized structure and cofinancing; and
 - (iv) Highlight the strong role of COSOP-level and project design discussions to communicate expectations about cofinancing levels.
15. Members were pleased with Management's proposal for a unified approach to measuring in-kind contributions, including in this category, tax exemptions, and the related detailed technical note was endorsed. Members welcomed Management's assurance that the IFAD11 cofinancing target would be measured and assessed on the same basis as discussed during the IFAD11 Consultation.
16. Members discussed why country-level targets should remain indicative and serve as a basis for discussion with governments at the COSOP design stage. Management shared this view and clarified that the commitment related to corporate targets while the cascading methodology was to achieve higher internal accountability.
17. The Working Group endorsed the document with the understanding that the following points would be added to the recommendation box: (i) the strategy should present a long-term vision for cofinancing; and (ii) the methodology for cascading targets should be reflected as endorsed.
- (c) Regional lending operations (document TFWG 2018/2/W.P.5)
18. In a brief presentation, Management:
- (i) Provided examples of where IFAD's comparative advantage was greatest in piloting regional operations, as requested by members at the previous meeting;
 - (ii) Outlined the operationalization of a pilot programme through existing policies, which would involve presenting lessons learned and next steps to the Board during IFAD11; and
 - (iii) Provided a summary of practices at other IFIs, focusing on the potential for successful outcomes of regional operations compared to single country operations.

19. The discussion highlighted:
 - (i) The principle that IFAD would only pilot regional lending operations (RLOs) where its comparative advantage was clear;
 - (ii) The need to refer to IFAD's mainstreaming agenda;
 - (iii) The need to define eligibility criteria;
 - (iv) The need to outline the main characteristics of the assessment of the RLO pilots.
20. Management reminded the Working Group that all RLOs would be presented to the Board for approval, accompanied by a matrix showing the potential benefits of each operation.
21. Members also expressed their wish to limit the number of RLOs to three during the pilot phase. Management agreed to this proposal. Since the number of pilot projects would be limited, the lessons learned would only be a starting point for developing an institutional approach. Management would return with preliminary results in the context of the IFAD12 Consultation.
22. Taking into account members' observations, the document was endorsed.
 - (d) Revised guidelines and procedures for results-based country strategic opportunities programmes (document TFWG 2018/2/W.P.6)
23. Management's short presentation covered the following points:
 - (i) In line with the IFAD11 commitment, COSOPs would become long-term strategies and provide a fully-fledged transition strategy to accompany countries in their development journey. To do so, a more thorough analysis of the possible evolution of a country's macroeconomic conditions would be included in the COSOPs;
 - (ii) IFAD would also strengthen its assessment of other country-specific variables more linked to the agricultural sector;
 - (iii) The alignment of COSOPs with the new generation of United Nations Development Assistance Frameworks (UNDAFs) would be ensured by including, in the COSOP results framework, a link to the relevant Sustainable Development Goals, which would also be included in the UNDAFs from 2018 onward;
 - (iv) The COSOP review process would be systematized and would reflect changes in country conditions as well as in IFAD's engagement strategy in the country.
24. The main points of the discussion were as follows:
 - (i) Some members expressed concern that the new procedures could increase costs, therefore synergies with other institutions should be identified, using information already available where possible;
 - (ii) In addition to the commitment that IFAD would take into account UNDAFs in its COSOPs, members stated that it was important to identify areas for in-country collaboration with the Rome-based agencies, since together the agencies would be able to influence agricultural policy at a high level;
 - (iii) The importance of the potential evolution of a country's financing envelope beyond the current PBAS cycle was underlined;
 - (iv) Clarification was requested on delegation of authority and the approval process. Management clarified that while policies are approved by the Executive Board, procedures are typically approved by Management.

However, the procedures would be shared with the Working Group in October; and

- (v) Members also stated that all IFAD11 commitments related to COSOPs, including both those included in the body of the document and others, such as the role of the COSOPs in the PBAS entry criteria, be reflected in the recommendation box.
25. The Working Group endorsed the document with the understanding that the following points would be added to the recommendation box: (i) a list of all IFAD11 commitments related to COSOPs, as already included in the body of the document; and (ii) that COSOPs include an indication as to the potential evolution of financing scenarios within the COSOP period.

Agenda item 5: Minutes of the first meeting of the Transition Framework Working Group

26. The Working Group approved the revisions to the draft minutes of its first meeting, as contained in document TFWG 2018/2/W.P.7. The final minutes, incorporating the approved revisions would be posted on the Member States Interactive Platform.

Agenda item 6: Other business

27. There were no other items for consideration.