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IFAD Transition Framework – Draft Document

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Investing in rural people

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Table of contents

Abbreviations and acronyms	ii
Executive summary	iii
I. Introduction	1
II. Experiencing transitions	2
III. Defining transitions	2
IV. Managing transitions	3
The 10 elements of the IFAD Transition Framework	3-10

Abbreviations and acronyms

COSOP	country strategic opportunities programme
GNIpc	gross national income per capita
IDA	International Development Association
IFI	international financial institution
IMF	International Monetary Fund
IOE	Independent Office of Evaluation of IFAD
IVI	IFAD Vulnerability Index
LIC	low-income country
LMIC	lower-middle-income country
MIC	middle-income country
OECD	Organisation for Economic Co-operation and Development
PBAS	performance-based allocation system
SSTC	South-South and Triangular Cooperation
TFWG	Transition Framework Working Group
UMIC	upper-middle-income country

Executive summary

1. In the development arena, a “country transition” refers to a process in which a country’s gross national income per capita (GNIpc) increases past the threshold of change from low-income country (LIC) to lower-middle-income country, upper-middle-income country (UMIC) and high-income country status. These World Bank classifications¹ are generally applied by all other international financial institutions. In addition to GNIpc, creditworthiness is the second criterion used to determine the financing terms applied to a country. Increasing income, accompanied by higher creditworthiness, leads a country to transition towards less concessional financing terms.
2. While GNIpc and creditworthiness remain the most widely agreed-upon measures of transition – and it is important for comparability and transparency that IFAD applies the same definition – there is wide recognition that these criteria do not capture each country’s unique development challenges and capacities to meet those challenges. Dialogue between the country in transition and IFAD Management is key, with flexibility limited to exceptional cases as agreed with the Executive Board.
3. While the number share of LICs is declining and the number share of UMICs is increasing, these classifications mask significant differences among countries since transition trajectories are neither linear nor stable over time. ~~IFAD has responded to such transitions by adapting its financing terms and the share of its resources in an inverse proportion to GNIpc.~~ The Consultation on the Eleventh Replenishment of IFAD’s Resources (IFAD11) agreed that IFAD should target the poorest people and the poorest countries. In line with the growing diversity of country contexts and reflecting the principle of universality, IFAD recognizes the need to engage in a more differentiated manner with borrowing countries. This differentiation is essential for responding to country-specific needs, remaining a relevant partner and ensuring effective dissemination of lessons learned. Recognizing that IFAD’s resources alone will not be sufficient to meet all needs, the evolution of IFAD’s business model will allow it to be more responsive and deliver more value for its stakeholders.
- ~~4. The IFAD Transition Framework proposes 10 concrete elements to manage transitions more effectively by: (i) increasing the understanding of what drives transitions through more thorough country assessments focused on medium-term trends; (ii) enhancing IFAD’s response to transitions by broadening its financial and operational offerings; (iii) appreciating countries’ diverse capacities to contribute to their own development through domestic resource mobilization and expediting additional resource mobilization; and (iv) increasing coordination with borrowing countries and donors for a more impactful response to transition. All these concrete elements support the principles of predictability, transparency and sustainability.~~
4. The IFAD Transition Framework represents one of the IFAD11 commitments and is a critical pillar of the new business model for IFAD11, which tailors operations to support borrowers’ demands and needs through an evolving operational and financial framework, and associated toolkit. This two-pronged business model – combining the IFAD Transition Framework with enhanced decentralization – will greatly enhance IFAD’s effectiveness, responsiveness and attractiveness to stakeholders. Through this business model, IFAD will have greater proximity to country context and development partners, enabling early identification of changing conditions to recalibrate strategies towards optimal development solutions while ensuring financial sustainability.
5. The IFAD Transition Framework is not a stand-alone policy or a prescriptive document. It will continue to evolve along with IFAD’s and borrowing countries’ capacities and contexts. It encompasses the following 10 concrete elements to

¹ See <https://datahelpdesk.worldbank.org/knowledgebase/articles/378834-how-does-the-world-bank-classify-countries>.

manage transitions more effectively, all of which support the principles of predictability, transparency and sustainability.

6. It should be noted that some of the elements contain references to topics for which the development of related policies and/or procedures may start or continue into 2019 and beyond through IFAD's governing bodies, as indicated in italics below. It is therefore likely that the Transition Framework will be updated accordingly after due process. These elements have been included in order to provide a more comprehensive representation of the expected full-fledged Transition Framework once the agreed IFAD11 reforms have been realized:
- (i) Borrowers will transition from one stage to another based on their GNI pc and creditworthiness (approved by the Governing Council in February 2018 in phase I of the Transition Framework).
 - (ii) Borrowers will enjoy benefit from phasing-out/phasing-in periods to smooth their transitions to hardened lending terms (the Working Group on the Transition Framework [TFWG] terms of reference [ToRs], paragraph 7(i); will be approved with this document).
 - (iii) Borrowers and Management will jointly develop medium-term transition strategies for each country that identify IFAD's most appropriate mix of support (TFWG ToRs, paragraph 7(iv); revised country strategic opportunities programme procedures to be presented to the Executive Board in December 2018 for review).
 - (iv) Borrowers will access a more diversified menu of lending and non-lending products from IFAD to suit their increasing internal capacities, diversified needs and specific circumstances (TFWG ToRs, paragraph 7(iii); products to be regularly designed and rolled out; certain products are already under development such as results-based lending and regional operations).
 - (v) Borrowers will increasingly rely on domestic resource mobilization for rural transformation and IFAD will complement those efforts to sustain transitions (TFWG ToRs, paragraph 7(ii); strategy and action plan to be endorsed by TFWG in 2018 and reviewed by the Board in December 2018).
 - (vi) Borrowers, as part of their own transition strategies, may choose not to access IFAD's financial resources; if requested, IFAD will tailor its support with other forms of development assistance (to be further developed after phase II as per TFWG ToRs, paragraph 8).
 - (vii) IFAD will recalibrate its resource allocation as countries transition, and proactively make adjustments to those mechanisms in order to reflect changes in borrowers' needs and composition (to be further developed after phase II as per TFWG ToRs, paragraph 8).
 - (viii) Management will continue to enhance IFAD's financial architecture and risk management practices to expand its toolkit and increase resources available to all borrowers (update of financing terms as per paragraph 22 of EB2017/122/R.34/Rev.1, other topics to be further developed after phase II as per TFWG ToRs, point 8).
 - (ix) IFAD will coordinate its approach to ensure that its transition support is aligned with Members' and partners' broader approaches to transitions (through a cross-departmental transition task force and greater coordination with other development partners as identified in paragraphs 20 and 21 of EB2017/122/R.34/Rev.1, ongoing).
 - (x) Management will report lessons learned from implementing this IFAD Transition Framework in its midterm review of IFAD11 (cross-departmental transition task force will be set up in 2018, as identified in paragraph 20 of EB 2017/122/R.34/Rev.1, and report through IFAD11 midterm review).

Recommendation for approval

The Executive Board is invited to approve this IFAD Transition Framework as contained in paragraphs 1 to 31.

IFAD Transition Framework

I. Introduction

1. During the Consultation on the Eleventh Replenishment of IFAD's Resources (IFAD11), Members requested that Management develop a transition framework to complement IFAD's evolving financial architecture and the enhanced IFAD11 business model. ~~The proposed framework draws on research and experience, and although it was inspired by practices at other international financial institutions (IFIs), it is tailored to IFAD's mandate.~~
2. The principal aim of the IFAD Transition Framework is to ensure a smooth, predictable, sustainable and equitable transition for borrowers by providing expanded lending and non-lending support as countries get richer and can access domestic and other forms of financing, as agreed in the Addis Ababa Action Agenda of the Third International Conference on Financing for Development. ~~As other IFIs have done,~~ IFAD needs to adapt to the evolving global context. This requires that IFAD both upgrade and expand its existing lending and non-lending products, and undergo a long-term operational and financial transformation as the basis for greater diversification and impact.
3. IFAD's support is intended to contribute to inclusive and sustainable rural transformation, supporting countries' own development plans and ensuring that as they develop, these countries leave no rural people behind. The empirical analysis in the 2016 Rural Development Report shows that if countries are not proactive during their transitions, rural poor people will indeed be left behind. Inclusive rural transformation does not happen automatically, but must be facilitated.
4. To achieve this, IFAD must offer its Member States both financial and non-financial resources; each resource type yields different returns in different country contexts. IFAD recognizes that tailoring the focus of its investments and the range of products and financing terms it offers can make a significant difference in terms of development effectiveness and impact.
5. As countries transition to higher income levels, the importance of agriculture to the national economy tends to diminish. In fact, there is a strong inverse correlation between agriculture's share of gross domestic product and gross domestic product per capita.² Transitions bring a progressive decrease in IFAD's core financing, but should be accompanied by non-lending activities. Reducing rural poverty takes more than money: the Fund can support borrowers in developing strategies to analyse and target rural poverty by employing ~~the most~~ more strategic investments and mix of instruments. The challenge is to move beyond thinking of IFAD's support simply as funding, towards envisioning IFAD as a strategic partner that leverages broader instruments and advice, as proposed in the IFAD11 business model.

² D. Cervantes-Godoy and J. Brooks, "Smallholder Adjustment in Middle-Income Countries: Issues and Policy Responses", *Food, Agriculture and Fisheries Working Paper No. 12* (Organisation for Economic Co-operation and Development (OECD), 2008), doi:10.1787/228583166164.

- ~~6. Once IFAD's financial structure and corresponding products are strengthened and expanded, the Fund will have all the elements in place for a full-fledged transition framework.~~

II. Experiencing transitions

6. Two decades ago, 90 per cent of the world's poor people lived in low-income countries (LICs). Today, these countries account for just 28 per cent, yet the gaps that must be closed in these countries to reach the SDGs are disproportionately large. LICs continue to be the primary beneficiaries of IFAD's services, representing close to 40 per cent of its ongoing operations. The transformation of previous LICs into lower-middle-income countries (LMICs) and middle-income countries (MICs) has accelerated in the last 20 years. Three quarters of the world's poor people – especially rural people – live in these countries. Achievement of the 2030 Agenda for Sustainable Development – and IFAD's contribution to it – depends on IFAD's ability to meet the needs of LMICs and LICs, and present 88 per cent of planned IFAD11 deliverables in line with the IFAD11 commitment for 90 per cent of core resources to be dedicated to LICs and LMICs and per the agreement that IFAD's investments will target the poorest people and the poorest countries.
7. Upper-middle-income countries (UMICs), the most heterogeneous group, are home to approximately 22 per cent of the world's extremely poor people; the number of countries classified as UMIC is growing. UMICs range from small islands to large economies like China, Brazil and Mexico. However, data indicate that in many non-income dimensions, pockets of poverty in some UMICs are as severe as in LICs. Moreover, many of these countries are experiencing the "middle-income trap" – when growth slows after reaching middle-income status. The transition to high-income status often takes decades. According to World Bank estimates, only 13 of 101 MICs in 1960 had graduated to the high-income category by 2008. This is an important lesson for the establishment of a transition framework aimed at sustainable development. In terms of IFAD borrowers, during IFAD9 and IFAD10, the number of LICs decreased from 28 to 24, LMICs increased from 32 to 34, while UMICs stayed flat at 25 and high-income countries increased from one to three.

III. Defining transitions

8. For IFAD, "transition" refers to the process in which the gross national income per capita (GNIpc) and creditworthiness of a country eligible to borrow from IFAD increases to the threshold for receiving financing on less concessional terms. Reversal refers to the process in the opposite direction, where due to a decrease in GNIpc and creditworthiness, a country becomes eligible to financing on more concessional terms.
9. Management recognizes that classifications based only on GNIpc do not fully capture a country's unique development challenges and capacities to meet those challenges. IFAD considers these issues ~~when allocating project resources in its~~ performance-based allocation system (PBAS) through indicators such as the IFAD Vulnerability Index (IVI) and in analysing country context as a part of the country programming process. However, while imperfect, GNIpc remains the most robust measure of transition across development status in all international financial institution (IFIs).
- ~~10. During the reform of the performance-based allocation system (PBAS), a wide variety of indicators were evaluated as a possible replacements for GNIpc, from human development indicators to climate change vulnerability and domestic resource mobilization. While these alternative indicators may complement GNIpc – like the IFAD Vulnerability Index (IVI) – and may have a high degree of correlation, they cannot substitute for it. While imperfect, GNIpc remains the most robust measure of transition across development status in all IFIs.~~

10. To capture the multiple dimensions of transition, IFAD revised its PBAS to better reflect its borrowers' rural development transitions. ~~A second important change was the~~ It also changed the process for hardening the terms on which borrowers can access IFAD resources to an approach that is more predictable. ~~In the past, lending terms were revised on a yearly basis without any guidance accompanying the change, creating uncertainty.~~ With growing GNIpc, Members have become more sophisticated in their demands from IFAD, requesting more diverse services and options. While transition is a positive milestone, there are both challenges and opportunities in managing a country's transition that require further refinement of IFAD's approach and options.

IV. Managing transitions

11. A transition framework is ~~a set of actions~~ designed to provide borrowers with greater flexibility and clarity in the use of IFAD's products – facilitating the implementation of their own transition strategies. Developing and implementing this framework requires a series of institutional adjustments to strengthen IFAD's operational and financial capacity to support countries in their development transitions, especially in their rural sector.
12. This framework is based on the following three principles:
- Predictability is the over-arching principle of the IFAD Transition Framework. Transitions must be predictable in order to ensure sustainability and must follow clear and transparent rules. The provision of IFAD's loans and grants to countries is predictable when borrowers are confident about the amounts, timing and pricing of resources allocated to them. IFAD can ensure more predictable financing terms by: applying new financing terms over a replenishment cycle instead of on a yearly basis; and using a phasing-in period together with periodic recalibrations of resource allocation.
 - Sustainability. Sustainable transitions call for differentiated approaches that have long-lasting effects to limit the probability of reversals. Each country's situation is complex and multidimensional, influenced by many financial, economic and social factors as well as exogenous factors and shocks. As these circumstances change, a broader menu of lending and non-lending products will increase the sustainability of IFAD's interventions beyond the life of a single project. Domestic and international resource mobilization is another way to ensure the complementarity of interventions. Above all, strong government ownership of projects and programmes will be critical for ensuring sustainability. As agreed in the IFAD11 Consultation report, IFAD's financial sustainability is also a key principle to be considered in the road map for IFAD's financial strategy and the development of lending and non-lending support.
 - Transparency. Of all the elements comprising a results culture, transparency is perhaps the most transformational. Transparency demands better data quality, fair, equitable and more efficient use of resources, careful monitoring, better policy compliance and benchmarking.³ Transparent financing, in line with International Aid Transparency Initiative standards, requires development partners and borrowers to use objective criteria for resource allocation and publish information in an accessible and timely manner.
13. In establishing and implementing the IFAD Transition Framework, IFAD faces a series of trade-offs and tensions. It has limited resources to support its Member States in promoting sustainable and inclusive rural transformation while its institutional capacity limits the number of new functions it can take on effectively.

³ Development Assistance Committee, *Aid Predictability – Synthesis of Findings and Good Practices* (October, 2011).

A critical mitigation strategy will involve prioritization – identifying the most important issues to address – and proportionality – ensuring that the initiatives undertaken through the IFAD Transition Framework reflect IFAD’s scale and niche.

14. The IFAD Transition Framework proposes to manage transitions more effectively by (i) increasing the understanding of what drives transitions through country assessments focused on medium-term trends; (ii) enhancing IFAD’s response to transitions by broadening its financial and operational offer; (iii) appreciating countries’ diverse capacities to contribute to their own development through domestic resource mobilization and expediting additional resource mobilization; and (iv) increasing coordination with borrowing countries and donors for a more impactful response to transition. The Framework is envisaged as having 10 concrete elements, all of which support the principles of predictability, transparency and sustainability.
 - (i) Borrowers will transition from one stage to another based on their GNIpc and creditworthiness.
15. ~~Country transitions are based on two criteria~~ rely on the ability to self-finance development. IFAD and other IFIs use two criteria to measure this: GNIpc and creditworthiness. GNIpc is the primary criterion for determining IFAD’s financing terms, aligned with the International Development Association (IDA) and other IFIs. IFAD has also adopted the creditworthiness criterion developed by the International Monetary Fund (IMF). However, transitions cannot be driven solely by mathematical formulas. Management pays close attention to countries approaching eligibility at the end of each replenishment period so that discussions with borrowers and other stakeholders can be meaningful and timely. Since it is important to ensure transparent, fair and equitable access for all borrowers on a consistent basis, flexibility is limited to exceptional circumstances (agreed on a case-by-case basis with the Executive Board).
16. While developing a tailored approach to address countries’ specific needs during the transition period, Management will use objective variables that complement GNIpc to assess countries’ overall development situations. These include:
 - The IVI;
 - The Rural Sector Performance Assessment, including macroeconomic indicators;
 - Measures of the pervasiveness of rural poverty;
 - Tax revenues and public expenditure on rural development; and
 - The portfolio performance and disbursements variable – an indication of the use of previous resources provided by IFAD.
 - (ii) Borrowers will benefit from phasing-out/phasing-in periods to smooth their transitions to hardened lending terms.
17. Transitions typically extend over several years if not decades. The recent change in IFAD’s Policies and Criteria for IFAD Financing provides for more predictable and transparent planning as financing terms for each country are revised once in each replenishment cycle. The gradual process of transition in IFAD’s financing terms, which involves phasing in less concessional terms, smooths countries’ transitions to higher-income status. It will also help to ensure that borrowers have the appropriate capacity to absorb resources. In addition, this process will allow for marginal changes in the base criterion (i.e. national income) to stabilize before financing terms are revised.
18. In the case of countries undergoing a reversal, the reversal will normally be addressed on an annual basis to assist governments in mitigating the cause of the reversal, unless faster application is needed. The transition programme should

foster the conditions necessary for borrowers to return to their former status as soon as feasible.

- (iii) Borrowers and Management will jointly develop medium-term transition strategies for each country that identify IFAD's most appropriate mix of support.
19. Transitions are medium- to long-term processes that must be planned and resourced adequately. IFAD's country strategic opportunities programmes (COSOPs) create a foundation for enhancing the impact of government development policies and programmes in the rural sector, and IFAD's interventions. Updated COSOP guidance will play a central role in outlining IFAD's medium-term strategy to flexibly – yet predictably – respond to each country's expected development needs. This strategy is an important tool for delivering a cohesive package of interventions, foreseeing expected results and potential risks, and designing mitigation actions. The country assessment will include a set of variables focused on macroeconomic conditions, the agricultural and rural sectors, rural poverty and the policy and institutional context – all aimed at capturing diverse country dimensions and allowing for early identification of events that may trigger country transitions.
20. COSOPs will become living management documents through which interventions will be tailored as country conditions change. At midterm – or more often if exceptional circumstances require – COSOP reviews will be carried out to reassess the needs, priorities, solutions and strategies on which COSOPs are based. The reviews include both internal and external factors influencing the country's current engagement. They may recommend adjusting instruments and tools for flexible use of resources, such as restructuring to maximize development impact. IFAD will work with other IFIs and bilateral agencies to ensure a coordinated approach, especially in cases of prolonged arrears, fragility and in small states.
- (iv) Borrowers will access a more diversified menu of lending and non-lending products from IFAD to suit their increasing internal capacities, diversified needs and specific circumstances.
21. A sustainable transition framework ~~that addresses the increasing diversity in country specific contexts~~ calls for IFAD to diversify its lending and non-lending instruments to tailor its support to each Member State, as recognized in the enhanced business model for IFAD11. ~~Other IFIs offer substantial flexibility through a variety of products and pricing structures.~~ Based on assessed demand and robust analysis, Management will pilot new products during IFAD11 that allow it to maintain its comparative advantage and strategic focus. This more diverse offering will enable IFAD to expand its role in various areas:
- Results-based lending. The corporate-level evaluation of IFAD's financial architecture indicated strong demand by clients for a results-based instrument. Such an instrument can strengthen IFAD's focus on smallholder farmers and shift the paradigm of local-level government service provision. There is significant potential to introduce more participatory approaches: IFAD will draw on its hands-on approach and relationships with rural communities and farmer organizations to deliver results and scale up.⁴ IFAD proposes to undertake at least two or three pilots over a 6-year period and use these pilots to fine-tune the final product, including where its application is best suited.
 - Regional lending operations. ~~Regional integration can have a profound effect on rural development. Therefore,~~ Regional lending operations can be powerful tools to tackle rural development challenges such as environmental

⁴ Brookings, *Scaling up Programs for the Rural Poor: IFAD's experience, lessons and prospects (Phase 2)*, Brookings Global Economy and Development (January, 2013).

threats and a lack of integrated markets for small farmers.⁵ Services required to address these threats – such as transport, disease prevention and natural resource management – are best provided at the regional level in order to tap into economies of scale, ensure connectivity and extend access to goods and services. Multi-country solutions and pooling of resources can help to leverage the resources of individual countries to achieve broader impact. These solutions can particularly benefit small countries (such as SIDS), and countries suffering from cross-border challenges including natural disasters. IFAD will pilot up to three regional lending operations and develop an institutional approach based on lessons learned.

- IFAD's enhanced approach to reimbursable technical assistance. Complementing resources available primarily for UMICs, reimbursable technical assistance helps to transmit IFAD's operational and policy knowledge to countries where it does not have a lending relationship. The product also allows countries to access IFAD's knowledge and expertise. IFAD will continue to define its comparative advantage in this area and provide ~~more information about the~~ benefits through reimbursable technical assistance so as to become an integral part of IFAD's engagement in Member States.
 - Policy engagement. IFAD can bring evidence from its projects and its global experience to national policy making processes. This is especially relevant to countries in which IFAD's knowledge is deemed to be as important as its financing (including many MICs). During IFAD10, IFAD put a stronger focus on country-level policy engagement as its key non-lending activity. This will be expanded during IFAD11. Decentralization of IFAD's staff places expertise close to national policymakers and policy processes. In addition, IFAD's policy engagement will be strengthened by the new project-design process, the dedication of resources specifically for policy engagement and enhanced monitoring and evaluation.
 - South-South and Triangular Cooperation (SSTC). SSTC is an increasingly important dimension of national development strategies and IFAD has a crucial role as a broker of SSTC opportunities in smallholder agriculture and rural development. During IFAD11, SSTC will be promoted as an integral component of IFAD's business model. Three new SSTC knowledge centres (in Brazil, China and Ethiopia) are being established and will play a key role in operationalizing the SSTC agenda. For example, with support from China's Government, the new facility in that country was created to finance SSTC-focused activities. Similar opportunities are being explored with other Member States.
- (v) Borrowers will increasingly rely on domestic resource mobilization for rural transformation and IFAD will complement those efforts to sustain transitions.
22. A key principle of the new business model is that Members will make the utmost effort to provide counterpart financing for all IFAD-supported projects, commensurate with their financial status. It is noted that empirically larger projects mobilize more domestic resources. In line with the IFAD11 commitments, counterpart targets will be agreed with governments during the preparation of project concept notes and included in COSOPs. The aim is to achieve the 1:0.8 IFAD11 aggregate domestic cofinancing target. A clear methodology for the recognition and monitoring of in-kind contributions will also be established. The level of domestic cofinancing in ongoing IFAD-supported projects varies widely.

⁵ The contributions of a regional approach to development actions' increased effectiveness have been stressed at high-level forums including those that issued the Paris Declaration on Aid Effectiveness (2005), Accra Agenda for Action (2008) and Busan Partnership for Effective Development Cooperation (2011).

Evidence from a study conducted by IFAD confirms other agencies' findings that increased domestic cofinancing directly contributes to a country's own performance on poverty alleviation.⁶ ~~This analysis has provided a basis to establish cofinancing targets that evolve as transitions occur and that take into account domestic circumstances as well as donor support.~~

23. Domestic cofinancing goes hand in hand with international cofinancing because it promotes ownership of projects, increasing projects' size and enhances their attractiveness to other financiers. The IFAD11 Report acknowledges that IFAD should enhance its capabilities as an assembler of development financing in addition to its role as a direct lender. Leveraging cofinancing from external partners enables projects to cover more beneficiaries, improves aid coordination, facilitates policy engagement with governments and provides opportunities to scale up successful experiences for enhanced impact and sustainability. It is also required across IFAD's project portfolio to achieve the 1:0.6 IFAD11 aggregate international cofinancing target.
 - (vi) Borrowers, as part of their own transition strategies, may choose to not access IFAD's financial resources; if requested, IFAD will tailor its support with other forms of development assistance.
24. The ultimate goal of any developing country is to move from recipient to donor, proving that development efforts have been successful and sustainable. Choosing not to access concessional resources may be part of a country's transition strategy. Such strategies must be planned and executed in a manner that increases the volume of resources the country has access to and the financial instruments and the other services it can access from international institutions. It must therefore be a calculated decision accompanied by years of careful planning, transparency and a coordinated approach with other partners.
25. IFAD's engagement with countries can contribute to tangible improvements in development outcomes through carefully targeted projects. IFAD can play a strategic role in national planning to reduce the reliance on concessional financing in line with countries' transition strategies, accompanying this support with other forms of assistance such as reimbursable technical assistance.
 - (vii) IFAD will recalibrate its resource allocation as countries transition, and proactively make adjustments to those mechanisms in order to reflect changes in borrowers' needs and composition.
26. IFAD's PBAS allocates resources over a three-year period based on country needs and performance. This mechanism uses a comprehensive set of measurements to capture the stage of country development and rural development needs using multidimensional criteria. This is complemented by data on how effectively the borrower is utilizing IFAD resources. PBAS reforms have included a stronger focus on vulnerability and performance so that vulnerable countries such as LICs, small island developing states, least developed countries and countries with most fragile situations receive a greater share of IFAD's resources.
27. Through the PBAS, more resources are allocated to the lowest-income countries. However, engagement is essential in UMICs if the world is to achieve Sustainable Development Goals (SDGs) 1 and 2 because these countries have significant numbers of rural poor people. While IFAD should continue to provide financial resources, its value in UMICs countries lies in leveraging both financial and non-financial products and services. Such engagement in UMICs ultimately benefits all IFAD Members States by allowing IFAD to learn from their development processes in order to serve the poorest countries better. Engagement in UMICs also enables IFAD to act as broker of SSTC and should increasingly strengthen

⁶ Mathew Winters and Jaclyn Streitfeld, *Splitting the Check: Bargaining Over Counterpart Commitments in World Bank Projects* (University of Illinois at Urbana-Champaign, 2013).

IFAD's financial sustainability as it develops new products and leverages its financial architecture to provide further non-core resources as well as play a pivotal role in non-lending products.

(viii) Management will continue to enhance IFAD's financial architecture and risk management practices to expand its toolkit and increase resources available to all borrowers.

28. As part of the IFAD11 reform process, IFAD's financial framework and strategy will be enhanced in order to tailor operations to national demand and borrowers' needs. This will allow IFAD to mature as a collaborative development partner and enhance its effectiveness and impact. The efficiency of IFAD's capital base will be maximized through increased resourcing, with a focus on IFAD's financial sustainability. While replenishment contributions will remain the bedrock of IFAD's capital and financial commitment capacity, borrowing will be integrated into the Fund's financial framework. This evolution will provide the basis for a more diversified array of products and support tools, and enhance IFAD's responsiveness to borrowers, This will necessitate updating the Fund's financing policies to facilitate transitions also through updated financing terms. This objective will be pursued by:

- ~~Updating IFAD's financing terms. In the context of an increasingly complex development landscape and changes in the business model, updating IFAD's financing terms will facilitate the delivery of its IFAD11 programme of loans and grants. This will provide greater flexibility and options for borrowers, tailoring IFAD's financing terms to address challenges related to the fragility of small states' economies, debt and risk management, and planning for both borrowers and IFAD, including foreign exchange exposure.~~
- Reviewing IFAD's cost of capital and enhancing risk management. The IFAD11 reform process foresees the development of a financial architecture to maximize the efficiency of IFAD's capital through increased resources, ensuring financial sustainability and optimized risk management and planning. These reforms will comprise an expansion or adjustment of IFAD's range of borrowing instruments, tools, resource base and strategies; this may include voluntary accelerated repayment for countries in IFAD12. The reforms will be supported by policies to enhance IFAD's financial safeguards and reinforce risk management within the Fund, such as the non-concessional borrowing framework.
- Other initiatives in line with IFAD's niche and unique mandate include: (i) focusing IFAD's strategy on its niche of LICs and LMICs for 90 per cent of core resources; (ii) addressing fragility and crisis situations; (iii) diversifying its services to MICs and UMICs; (iv) planning for additional non-core resources that IFAD can leverage in the future; and (v) continuing to explore borrowing from capital markets additional sources of resources mobilization, as agreed in the IFAD11 Consultation.

- ~~29. The IFAD Transition Framework will be underpinned by an evolving financial architecture and tools. Together with its enhanced business model, it will facilitate the provision of a comprehensive package of financial and non-financial instruments. This will allow IFAD to mature as a collaborative development partner and enhance its effectiveness and impact.~~

(ix) IFAD will coordinate its approach to ensure that its transition support is aligned with Members' and partners' broader approaches to transitions.

29. Transitions are complex processes that require coordination with partners. IFAD will strengthen dialogue with development partners about development in transition, working as part of the international community to enhance

communication, dialogue and collaboration, and explore multidimensional measurements of development that leave no one behind. While IFAD maintains its focus on agriculture, the space for complementary interventions is large and there is increasing knowledge exchange and learning across disciplines. This coordination is particularly important in cases of prolonged arrears, unsustainable debt, crisis, fragility and in small state economies.

30. IFAD Management will establish mechanisms to ensure coherence across financial and operational areas of the IFAD Transition Framework, and foster the wide dissemination of solutions. IFAD will formalize communications to borrowers on the time frame and impact of transitions, and discussions with each borrower's ministry of finance will take place before implementation. This will facilitate planning and ensure that all changes are made in a timely and transparent manner. Coordination with other IFIs and bilateral financiers will be enhanced.
 - (x) Management will report lessons learned from implementing this IFAD Transition Framework in its midterm review of IFAD11.
31. Management will report at the IFAD11 midterm review on the ~~effectiveness~~ implementation of the IFAD Transition Framework. This will include reporting on countries that change financing terms and their experiences with phasing in and phasing out. Reporting will also evaluate: the status of the introduction of new products and the enhanced use of current ones (e.g. reimbursable technical assistance); trends in resource mobilization; and the adaption of IFAD's support when country conditions change during the COSOP cycle. In addition, this update will include information from other donors and development actors to ensure the coherence of approaches and remain engaged in the global debate on countries in transition.