

Document: TFWG 2018/6/W.P.3/Rev.1  
Agenda: 4  
Date: 24 October 2018  
Distribution: Public  
Original: English

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## Transition Framework: Issues and Process Post Phase II

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Working Group on the Transition Framework — Sixth Meeting  
Rome, 29 October 2018

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For: Review

## Transition Framework: Issues and Process Post Phase II

1. At its 123<sup>rd</sup> session, the Executive Board agreed to form a Working Group on the Transition Framework (TFWG) to elaborate a Transition Framework based on the approach document approved by the Executive Board at its 122<sup>nd</sup> session in December 2017.<sup>1</sup> The Working Group's composition and terms of reference were approved at the 123<sup>rd</sup> session of the Executive Board in April 2018.<sup>2</sup>
2. Phase I of the Transition Framework was completed in February 2018, with the approval of the revisions to the Policies and Criteria for IFAD Financing by the Governing Council.
3. The terms of reference for the Working Group defined the scope of work for phase II, the purpose of which was to develop and finalize a Transition Framework to be approved by the Executive Board in December 2018, in line with the document Approach to a Transition Framework and with the relevant Eleventh Replenishment of IFAD's Resources (IFAD11) commitment (i.e. IFAD11 commitment 2.1, monitorable action 8; time frame: by Q4 2018),<sup>3</sup> so as to have the Framework in place for the start of the IFAD11 period.
4. In establishing the terms of reference for phase II, the Executive Board recognized that not all of the items mentioned in the approach paper would be addressed during 2018 as some of them would require a longer time frame. To this respect, the terms of reference (ToRs) of the TFWG made reference to the following topics:
  - Voluntary graduation approach;
  - Definition of an approach to loan pricing (commitment 1.1; monitorable action 3; time frame: by Q2 2020);
  - Guidance on the allocation of resources to be tailored to countries' needs, within the overall context of IFAD's mandate and strategic priorities; and
  - Special funding windows, as in the case of fragility.
5. Other items could be potentially analysed, in line with paragraph 37 of the Approach to a Transition Framework document,<sup>4</sup> such as additional non-core resource allocation and additional mechanisms to engage with the private sector.
6. At the 124<sup>th</sup> session of the Executive Board, Management agreed to present a document to the TFWG to enable it to provide guidance to the Board on how to proceed with the items not covered in phases I and II.
7. The draft Transition Framework document (TFWG 2018/6/W.P.2) references three post-phase II elements (non-access to IFAD's core resources, resource allocation recalibration and financial architecture, including loan pricing) but does not specify the venue or timing of discussion on these items. This document outlines the relevant options.
8. The table below sets out the elements mentioned in paragraph 4 above and related items, together with a potential roadmap for discussion and approval. All of these topics fall entirely within the remit of the Audit Committee, with the exception of voluntary non-access to IFAD's core resources (or graduation), which would be considered by the Working Group on the Performance-based Allocation System (PBAS).

<sup>1</sup> See EB 2017/122/R.34/Rev.1: Approach to a Transition Framework.

<sup>2</sup> See EB 2018/123/R.26/Rev.1.

<sup>3</sup> See annex I – "IFAD11 matrix of commitments, monitorable actions and timeline" – of the Report of the Consultation on the Eleventh Replenishment of IFAD's Resources (GC 41/L.3/Rev.1).

<sup>4</sup> See footnote 1.

9. The TFWG may wish to consider the following options:
  - (i) Option 1: Recommend continuation of the TFWG to ensure timely review and reporting to the Executive Board on related topics. Channelling items through a dedicated TFWG could potentially facilitate final Board approval, would maintain high visibility around the Transition Framework and would ensure a holistic view of the topics, which are quite diverse. Should this option be pursued, close coordination with related work streams in other Governing Bodies will need to be ensured.
  - (ii) Option 2: Mainstream the remaining activities into the governing body agendas as shown in the annex, according to their nature and for efficiency considerations. This would mean not extending the mandate of the current TFWG.
10. The risk of not having a holistic picture of the Transition Framework should the TFWG not continue can be mitigated through periodic dedicated reporting to senior Management in the context of the IFAD11 midterm review and then to the Executive Board. The Transition Framework document itself would be updated in line with its evolving nature.

## Table of post-phase II topics

<i>Topic</i>	<i>Transition Framework approach paper</i>	<i>TFWG ToRs</i>	<i>PowerPoint on IFAD's Financial Architecture</i>	<i>Venue for discussion</i>	<i>IFAD11 commitment</i>	<i>Comment</i>	<i>Timing</i>
<b>1. Special funding windows</b> (e.g. fragility)	Yes	Yes, after phase II	Yes	April 2019 Executive Board session together with the special programme for states with fragile situations	Monitorable action 35: Launch special programme	Activities already under way. Slated for the April 2019 Board session following Audit Committee review.	Executive Board April 2019
<b>2. Evolving financial architecture, cost of capital/loan pricing and review of resource allocation mechanism</b>	Yes	Yes, after phase II	Yes	Audit Committee	Monitorable action 3: Implement agreed actions in financial road map	Predominantly financial in nature. Although included in the approach paper and mentioned in the ToRs (para. 8), the most appropriate venue would be the Audit Committee. Could be presented to the TFWG for information should it continue.	Q1-2 2019, Executive Board retreat
<b>3. Access a more diversified menu of lending and non-lending products</b>	Yes	Yes	Yes	Audit Committee/ Executive Board	No	Several new instruments are already under development (e.g. regional operations and results-based lending) and will be run as pilots in IFAD11. Others will be developed operationally and in the context of the financial roadmap.	Ongoing
<b>4. Voluntary graduation approach</b>	Yes	Yes, after phase II	No	PBAS Working Group, then Executive Board or TFWG phase III	No	As the PBAS Working Group has broad ToRs, this topic could be considered within its remit.	IFAD11