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## Minutes of the First Meeting of the Working Group on the Transition Framework

### Note to Transition Framework Working Group Members

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## Minutes of the First Meeting of the Working Group on the Transition Framework

1. The first meeting of the Working Group on the Transition Framework was held on 4 May 2018; the discussions are summarized in this document.
2. The minutes, as approved by Members at the second meeting of the Working Group, 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, Cameroon, France, Germany, India, Indonesia, Italy, Kuwait and the United Kingdom. Executive Board observers from Angola, Canada, China, Mexico, the United States (by telephone conference) and the Bolivarian Republic of Venezuela were also present. IFAD was represented by the Associate Vice-President, Financial Operations Department; the Director of the Financial Management Services Division; the Acting Director of the Operational Policy and Results Division; the Officer-in-Charge, Office of the Secretary; and a Senior Legal officer.

### Agenda item 2: Election of the Chairperson of the Working Group on the Transition Framework

4. The Working Group, whose mandate ends in April 2021, elected the representative from Argentina as its Chairperson. Following a meeting of List C countries, Cameroon and India withdrew their candidature to allow consensus for Argentina to chair. In withdrawing its nomination, the representative from Cameroon referenced the fact that sub-List C1 had not recently held the chair of a committee or working group. He highlighted the need to ensure that there was equitable distribution of opportunities to act as chairperson of Executive Board subsidiary bodies.

### Agenda item 3: Adoption of the agenda

5. The provisional agenda, document TFWG 2018/1/W.P.1, contained seven items: (i) Opening of the meeting; (ii) Election of the Chairperson of the Working Group on the Transition Framework; (iii) Adoption of the agenda; (iv) Draft Programme of Work of the Working Group on the Transition Framework for 2018; (v) Presentation of the Concept and Elements of the Transition Framework; (vi) Procedure for drafting, clearance and sharing of records of the meetings of the Working Group on the Transition Framework; and (vii) other business.
6. A Member proposed that the working group consider item (v) before item (iv) to ensure that the discussions of the concept and elements informed the programme of work. Members adopted the provisional agenda, noting the change in the order of items (v) and (iv). The final agenda will be posted as TFWG 2018/1/W.P.1/Rev.1.

### Agenda item 5: Presentation of Concept and Elements of the Transition Framework

7. Management presented information on the following topics:
  - (i) Underlying principles of the concept-based approach to the Transition Framework (slides 1-3 Powerpoint presentation: Building the Elements of a Transition Framework);
  - (ii) Concept of multidimensional country analysis, including variables included in the performance-based allocation system (PBAS) for transitioning countries (slides 6-9 Powerpoint presentation: Building the Elements of a Transition Framework);
  - (iii) Highlights of the cofinancing study, including improved measurement of private-sector and in-kind contributions (document TFWG 2018/1/W.P.4); and

- (iv) Concept of regional lending operations (document TFWG 2018/1/W.P.5).
8. Management recalled the three guiding principles of the approach of the Transition Framework: predictability, sustainability and transparency. In addition, Management informed the Working Group that a first draft of the Transition Framework will be submitted at the Working Group's third meeting, scheduled for 26 July.
  9. One Member commented that the idea of giving more flexibility to develop country-specific approaches directly contradicted the principle of predictability. Management clarified that exceptions to the Transition Framework would, in any case, be presented to the Board for approval and the intention is that these cases be kept to a minimum, and a clear rationale for such exceptions be presented.
  10. Management mentioned that preliminary work on the harmonization of lending terms was already underway and that the Audit Committee was being kept updated in preparation for the future activities of the Transition Framework Working Group on IFAD specific loan pricing.
  11. This preliminary work, which will be presented to governing bodies in 2018, will aim to: respond to borrower demand; harmonize with other international financial institutions (IFIs); modernize; and make IFAD's lending terms more comparable.
  12. Regarding the concept of multidimensional country analysis, Management stressed that gross national income alone will not be the only factor guiding IFAD's support. A multidimensional analysis, grouping countries into clusters would help IFAD to define its strategy for those countries, noting that significant variations could exist within clusters. Management will work closely with partners to mitigate against backsliding into "lower" clusters.
  13. With regard to cofinancing, Management highlighted the following results of the cofinancing study, included in document TFWG 2018/1/W.P.4:
    - (i) Significant variation within regions;
    - (ii) Domestic cofinancing is driven by specific country characteristics in addition to income level (e.g. positive correlation with the Rural Sector Performance score and negative correlation with the IFAD Vulnerability Index; positive correlation with project size, even for upper-middle-income countries, where there is an underlying expectation of higher domestic commitment); and
    - (iii) Positive correlation between international cofinancing and project performance.
  14. Management observed that by increasing overall project size through international cofinancing, IFAD could engage governments in increasing domestic cofinancing as well.
  15. Management stated that IFAD would improve how it measures cofinancing, especially in-kind contributions. A technical note on this issue has been prepared and would be distributed to the following meeting, as requested by Members.
  16. Management also mentioned that data on private-sector cofinancing in IFAD operations are currently limited. Available data suggest that private-sector cofinancing comprises between 5 per cent and 10 per cent of project costs. However, there are challenges in capturing the full amount of private-sector cofinancing that often materializes during implementation and which may result in a higher percentage share.
  17. Management informed Members that a multilateral development bank working group is developing common definitions to measure both mobilization and the catalytic effect of private-sector contributions, which remains the most challenging dimension to measure.

18. Management agreed to one Member's request for additional information on IFAD's engagement with the private sector.
19. One Member highlighted the importance of the fact that Management had identified that governments play a primary role in determining the level of cofinancing. IFAD's approach should seek alignment with national priorities and policies to incentivize government support. The same principle should apply to international cofinancing requiring alignment with donor procedures. Such alignment should encompass language and terminology used in project documents so as to facilitate mutual understanding. Furthermore, IFAD should investigate how to obtain efficiency gains through pooled cofinancing. In addition, some Members suggested that the strategy should focus on IFAD's specific mandate.
20. Members requested that future meetings allow for the Working Group to provide input into the development of the cofinancing strategy.
21. Turning to regional lending, Management introduced a concept for regional lending operations (document TFWG 2018/1/W.P.5), which represents one of the new tools proposed as part of the approach.
22. Management proposed that funding for regional operations in IFAD11 comes from a country's IFAD11 PBAS allocation, including regional grants for piloting some regional strategies.
23. For IFAD12 and beyond, the approach could include: a dedicated window with additional financing for regional operations; and country strategic opportunity programmes (COSOPs) covering multiple countries.
24. While the introduction of regional lending operations was well received, Members cautioned IFAD Management on implementation difficulties arising from different country priorities and legislations, as well as sensitive topics, such as water management. Two Members stressed the need for the concept document to better reflect that IFAD's core mandate and value added will be the guidance for regional lending operations, and that eligible sectors cannot be as broad as is the case for other IFIs.
25. Members asked that Management elaborate on the legal issues pertaining to regional lending and other aspects of the Transition Framework. One Member requested that Management elaborate more on expectations in terms of efficiency gains stemming from regional lending operations and at what stage these would ensue, given the initial efforts necessary to facilitate such operations.
26. Some Members requested clarity on how countries can tap into their PBAS allocations to benefit from regional operations. Management explained that one way of piloting the instrument was for IFAD to begin cofinancing other IFI projects. Since no mechanism had yet been developed internally, Management would flesh out ideas together with Members of the Working Group to better respond to borrower demands.
27. There was strong consensus among Members that pilot programmes would be a good way for IFAD to gain experience in the area of regional lending.
28. Regarding COSOPs, Management reiterated their importance as repositories of the strategy to support country transitioning.
29. One important new element to be included in the forthcoming revision of COSOP procedures is the introduction of a country scenario analysis, which will allow for recalibration of IFAD's strategy for engagement with the country during the COSOP's lifetime, if necessary.
30. Finally, Members expressed appreciation for the comprehensive presentation, the issues highlighted and the excellent preparations made for the meeting.

Agenda item 4: Draft Programme of Work of the Working Group on the Transition Framework for 2018

31. The Working Group considered the draft programme of work as contained in document TFWG 2018/1/W.P.3. Comments included that topics be addressed sequentially, that elements of the revised COSOP procedures be discussed at the next meeting, and that additional topics for consideration at the next meeting could include:
  - (i) Additional discussions on cofinancing and regional lending operations; the technical note on the phasing-out/phasing-in mechanism (TFWG 2018/1/W.P.6), which was submitted to the working group ahead of the first meeting but not discussed; and
  - (ii) Time permitting, information on non-lending operations such as reimbursable technical assistance to initiate the discussion.
32. An additional formal meeting, to be held on September 18, was added to the programme of work, bringing the total number of formal meetings to five.
33. One Member noted common issues addressed by the PBAS Working Group and the Transition Framework Working Group, and raised the possibility of a joint meeting. Management agreed to review the calendar for the Rome-based agencies to determine if a joint meeting would be feasible.

Agenda item 6: Procedure for drafting, clearance and sharing of records of the meetings of the Working Group on the Transition Framework

34. The Working Group approved the procedure for the drafting, clearance and sharing of records of their meetings, as stipulated in document TFWG 2018/1/W.P.7.
35. In response to a query from a Working Group Member, Management clarified that this procedure applied only to the minutes of the Working Group and not to the final Transition Framework.
36. Management also elaborated the process for preparing the Transition Framework document. Following the draft to be made available to Members for comments at the Working Group's third meeting in July, later versions integrating comments would be shared with Members prior to the final version for endorsement in October 2018.

Agenda item 7: Other business

37. There were no other items for consideration.