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Enabling poor rural people
to overcome poverty

Categories and Governance of Resources available to IFAD

Note to Executive Board representatives

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For: **Information**

Information Note

Categories and Governance of Resources available to IFAD

1. Background and Purposes

1. At the Fourth Session of the Consultation on the Ninth Replenishment of IFAD's Resources (IFAD9), it was requested that a comprehensive information note on the categorization and governance of IFAD's resources be presented to Executive Board. This note supersedes the information note of 1 December 2004 to the Executive Board (EB 2004/83/INF.6), in which the Secretariat briefly explains the governance of two categories of IFAD's resources, namely complementary contributions and supplementary funds.

2. Resources Available to IFAD

2. Article 4.1 of the Agreement Establishing IFAD (the Agreement) provides that the resources of IFAD shall consist of: (i) initial contributions; (ii) additional contributions; (iii) special contributions from non-member States and from other sources; and (iv) funds derived or to be derived from operations or otherwise accruing to IFAD. These resources are often referred to as IFAD's "regular resources", indicating the fact that they have been received on a relatively predictable and frequent basis and constituted the majority of IFAD's resources.

3. Without prejudice to the generality of Article 4.1, IFAD, as an inter-governmental organization possessing international legal personality, is also competent to receive and administer other resources in order to fulfil its broad mandate, as provided in Article 2 of the Agreement, to "mobilize additional resources to be made available on concessional terms for agricultural development in developing Member States". This authority over non-Article 4 resources, although not expressly provided in the Agreement, finds its legal basis in Article 7.3 of the Agreement, which states:

In addition to the operations specified elsewhere in this Agreement, the Fund may undertake such ancillary activities and exercise such powers incidental to its operations as shall be necessary in furtherance of its objective.

4. IFAD's Governing Bodies have, in a series of decisions, requested the Secretariat to explore the scope for increasing the resources for IFAD's business by going beyond Article 4.1, through both market- and non-market-based mechanisms. As explained in Section 4 of this Note, to date a considerable amount of such resources have been raised and instruments created accordingly.

3. Article 4 Resources

Table 1: Article 4/Regular Resources

Article 4 resources	Contributions	Initial contributions (source: Members)	Contributions paid prior to 26 January 1995 (votes: yes)
			Contributions paid since 26 January 1995 (votes: no)
		Additional contributions (source: Members)	Core contributions (votes: yes)
			Complementary contributions(votes: no)
	Special contributions (source: non-Member; votes: no)		
Funds derived or to be derived from operations or otherwise accruing to IFAD			

3.1. Contributions

5. Article 4 of the Agreement provides three categories of contributions (Table 1), which shall be made available to IFAD in accordance with Article 4.5 (Conditions Governing Contributions), i.e. "without restriction as to use and shall be refunded to contributing Members only in accordance with Section 4 of Article 9 [termination of IFAD's operations and distribution of assets]." This provision, however, shall not be interpreted in a way to deprive the Governing Council (or the Executive Board, if duly delegated) of the authority to decide upon the use of such contributions.

Initial contributions

6. Under Article 4.2, initial contributions are paid by Members, original or not, when they join IFAD by depositing their instruments of ratification, acceptance, approval or accession pursuant to Sections 1(b) and (c) of Article 13 of the Agreement. Initial contributions paid prior to 26 January 1995 generated contribution votes for contributing Members in accordance with Article 6.3(a)(i)(B) of the Agreement.

Additional contributions

7. Additional contributions are provided in Article 4.3, and are called for by the Governing Council through regular replenishments by IFAD Members. Two sub-categories of additional contributions, although absent in the Agreement, have been developed by the Governing Council in its various replenishment resolutions, namely "core" and "complementary contributions".

8. Additional contributions, for which contributing Members shall receive commensurate contribution votes pursuant to Article 6.3(a) of the Agreement, are labelled as "core contributions" in the Governing Council resolution 166/XXXV on IFAD9,¹ while no specific name was given in previous replenishment resolutions. In the 2004 information note to the Executive Board (EB 2004/83/INF.6), such contributions are referred to as "regular" replenishment contributions in contrast to complementary contributions, the other sub-category of additional contributions.

¹ Section III(a)(i).

9. Complementary contributions were provided for the first time in the Governing Council resolution on IFAD2 (37/IX) and have since then been recognized by the Governing Council in all subsequent replenishments. These contributions, received on a voluntary basis, do not entitle a contributing Member to receive commensurate contribution votes. In practice, contributing Members may, and may not, propose specific use of such resources for the Governing Council's consideration. In cases where the Governing Council decides positively on such proposals, the proposed use is specified in the resolution adopted by the Governing Council for the replenishment in question. Since IFAD2, the Executive Board has been delegated by the Governing Council in its replenishment resolutions the authority to approve the use to be made of complementary contributions.²

Special contributions

10. Article 4.6 allows IFAD to increase its resources by receiving special contributions from non-Member sources. Special contributions, like all other contributions, shall be made in accordance with Article 4.5 (Conditions Governing Contributions). Therefore, this category of contributions can only be made in the form of unconditional grants/donations. However, in its resolution 166/XXXV on IFAD9, the Governing Council for the first time decides, inter alia, that special contributions made by any State after the adoption of the this resolution shall be converted into additional contributions upon the contributor's accession to IFAD during the IFAD9 period (2013-2015).³

3.2. Non-contribution resources under Article 4

11. The fourth category of IFAD's regular resources consists of funds derived or to be derived from operations or otherwise accruing to IFAD, including, inter alia, the reflow of IFAD's loans (including future reflows which can be committed under the Advance Commitment Authority), investment income, and fees IFAD may charge for its services provided to Members or third parties (e.g. management fees for IFAD's administration of grants and loans to Members on behalf of the donors and creditors thereof).

3.3. Financing with IFAD's regular resources

12. The use of IFAD's regular resources is subject to Articles 4 and 7 of the Agreement and the implementing rules thereof, including the provisions, inter alia, on the beneficiaries, criteria of distribution of financing (e.g. the proportion of grants), and financing terms and conditions. The President shall submit projects and programmes financed by IFAD's regular resources to the Executive Board for consideration and approval, unless the Governing Bodies otherwise decide.

13. It should be noted that a Member, in making any of these three Article 4 contributions, relinquishes control over the funds and their use, once such resources are accepted by IFAD. Nor does the Member receive special reports on interest earned on the resources.

² The Governing Council has, since IFAD7 (resolution 141/XXIX), allowed a Member to make an additional contribution, be it core or complementary, contingent upon IFAD's completion of specific actions as agreed on in the relevant replenishment consultation reports, namely "contingent contributions".

³ Section III(b)(iii).

4. IFAD-administered Resources

4.1. The policy and legal ground for administered resources

14. In accordance with Article 7.3 of the Agreement, IFAD is competent to undertake activities and exercise such powers, which, although not expressly provided in the Agreement, are “incidental to its operations as shall be necessary furtherance of its objective”, i.e. to “mobilize additional resources to be made available on concessional terms for agricultural development in developing Member States” (Article 2 of the Agreement). In practice, an innovative approach to resource mobilization has long been adopted by the Secretariat, going well beyond Article 4, in order to meet the growing demand of developing country Members for investments in agriculture.

15. The Governing Council has repeatedly lent its support to such an approach. For example, in 2001 (resolution 122/XXIV), it requested the Secretariat “to continue to explore the scope for increasing the financing available from non-donor resources, including market-based mechanisms”. Further, in Governing Council resolution on IFAD8 (154/XXXII), the Executive Board and the President were encouraged to strengthen IFAD’s catalytic role in raising national and international agricultural investments, to supplement IFAD’s resources by using its power to perform financial and technical services, including the administration of resources and acting as trustee. It was also made clear that operations involved in the performance of such financial services shall not be on the account of the Fund. This requirement of broadening scope for resource mobilization is incorporated in the resolution on IFAD9 (166/XXXV),⁴ in which the Governing Council also confirms that when determining the IFAD9 replenishment target, account has been taken of “the President’s undertaking to make every effort to explore the scope for increasing financing from alternative sources”.⁵

16. As shown in Table 2, IFAD has provided administrative services for resources provided by both donors (grants to third parties) and creditors (loans to third parties). In administering these resources, IFAD, acting as the agent in accordance with agreements concluded with the donors and creditors as the principals, fulfil its fiduciary duty to ensure the operation of such loans and grants be in line with the will of the donors and creditors and its mandate. Such administered funds are kept distinct from all other resources held by IFAD. They are different from all Article 4 resources, in that IFAD does not enjoy ownership over these funds and thus they are not necessarily subject to Article 4.5 (Conditions Governing Contributions) of the Agreement, but operate on conditions mutually agreed between the agent and the principal(s) on a negotiable basis. A management fee is charged for the services IFAD provides, since as required in the aforementioned replenishment resolutions, operations involved in the performance of such services shall not be on the account of IFAD.

Table 2: IFAD-administered Resources

IFAD-administered Resources (source: any; votes: no)	Administered grants to beneficiaries: supplementary funds
	Administered loans to beneficiaries

⁴ Section X.

⁵ Preamble.

4.2. Administered grants: supplementary funds:

17. IFAD has accepted to administer a considerable amount of grants on behalf of the donors under its framework of supplementary funds.⁶ Donors negotiate and agree with IFAD on the conditions for the use of the proceeds through supplementary fund agreements (partnership/administration agreements), including, inter alia, the purpose of the funds (i.e. the specific activities and/or beneficiaries for which the funds may be used), procedural requirements such as those on reporting and monitoring, and the management fee to be charged by IFAD to cover the cost of administering these resources.

18. For operational purposes, IFAD's supplementary funds have in practice been broadly categorized by purpose as follows:

(a) Co-financing resources. Resources received and administered by IFAD on behalf of donors to co-finance projects and programmes financed by IFAD loans or grants;

(b) Programmatic and technical assistance resources. Funds received by IFAD to finance, on a grant basis, a range of thematic programmes and short-term technical assistance activities as agreed between the donor and IFAD, and also to cover project and programme development, implementation and evaluation expenditures;

(c) Associate professional officer resources. Funds received by IFAD from Members under the associate professional officer scheme, or similar schemes to finance junior professionals at IFAD;

(d) Other supplementary funds. Funds received by IFAD to finance single-purpose projects or programmes financed by a single donor or a number of donors; and

(e) Funds administered by IFAD on behalf of other partner organizations hosted by IFAD. Examples include the Global Mechanism of the United Nations Convention to Combat Desertification and the International Land Coalition.

19. Since the miscellaneous powers provided in Article 7.3 of the Agreement are neither powers that cannot be delegated according to Article 6, Section 2(c) nor powers that have been reserved by the Governing Council in its resolution 77/2, as amended by resolution 86/XVIII, the Executive Board is the competent organ to decide upon the acceptance to administer supplementary funds and the conditions attached thereto.

20. As authorized by the Executive Board at its Twenty-Eighth Session in 1986 (EB 86/28/R.47) and Thirtieth Session in 1987 (EB 87/30/R.28), the President is competent to receive and administer grants from any source conditional for financing of on-going IFAD projects, and grants from Members conditional for financing of studies and short-term technical assistance activities related to IFAD's operations on similar conditions as specified in EB 86/28/R.47 and EB 87/30/R.28 respectively, without the need to seek further approvals from the Executive Board.

4.2. Administered loans

21. Given its recognized expertise in financing and agricultural development, IFAD may also be requested by a Member or non-Member creditor to administer a loan extended by that creditor to finance an agricultural project in a developing country Member of IFAD.

⁶ Approximately USD 884 million until 31 December 2011.

22. Like in the case of supplementary funds, IFAD may negotiate specific terms and conditions for the administration of loans from different creditors and may choose to apply or not the same rules as apply to the operation of its Article 4 resources. The authority over the administration of loans on behalf of creditors rests with the Executive Board, on the same legal ground as the competence with respect to supplementary funds.⁷

4.3. The instrument of trust funds

23. In administering both supplementary funds from donors and loans from creditors, two instrumental options are normally available to IFAD, i.e. IFAD can do so in its own capacity or in its capacity as the trustee of a trust fund. However, it shall be noted that once a trust fund is established by IFAD (or by others) as a distinct legal entity, the assets and liabilities of the trust fund will be ring-fenced and kept separate from the accounts of IFAD and used only for the purposes of the trust fund. Properties and assets held by the trust fund do not belong to IFAD, but are IFAD-administered resources. This is the case, for example, when IFAD, acting in its capacity as the Trustee of the Spanish Food Security Co-financing Facility Trust Fund (established by the Executive Board, EB 2010/100/R.29/Rev.2), entered into an agreement with the Kingdom of Spain for the borrowing of EUR 285.5 million to provide loans on concessional terms to IFAD's developing country Members.⁸

The establishment of trust funds is under the competence of the Executive Board by virtue of Governing Council resolution 77/2, as amended by resolution 86/XVIII. Moreover, Governing Council resolution 134/XXVII delegates the Executive Board the authority to decide.

⁷ Under its constituent instrument (the Agreement), IFAD is not prohibited from accepting, in contrast to administering, loans from creditors. However, such borrowing, as the primary means of resource mobilization for many other International Financial Institutions, has never been employed in IFAD's history.

⁸ Borrowing Agreement between the Kingdom of Spain ("Spain") acting through Instituto de Crédito Oficial ("ICO") as its Financial Agent and the Spanish Food Security Co-Financing Facility Trust Fund ("the Trust") acting through the International Fund for Agricultural Development in its capacity as the Trustee of the Trust ("IFAD", "the Fund" or "the Trustee"), dated 28 December 2010. The Executive Board decides in the Instrument establishing the Trust Fund (EB 2010/100/R.29/Rev.2) that IFAD, in administering the Trust, applies the same rules as, in accordance with the Agreement Establishing IFAD, apply to the operation of the resources of the Fund, unless otherwise specified in the Instrument.