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## Progress report of the Ad Hoc Working Group on Governance

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For: Information

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## Progress report of the Ad Hoc Working Group on Governance

### Background

1. Since its establishment by the Governing Council at its thirty-eighth session in February 2015, the Ad Hoc Working Group on Governance has held four meetings and a number of informal consultations.
2. Deliberations at the first two meetings were covered by the progress report presented to the Executive Board at its 115<sup>th</sup> session in September 2015 (EB 2015/115/R.24/Rev.1).
3. The Terms of Reference of the Ad Hoc Working Group on Governance stipulate that the Working Group will brief the Executive Board regularly on progress made. This progress report contains the syntheses of the third and fourth meetings of the Working Group, which were held, respectively, on 15 December 2015 and 20 January 2016. As of the release date of this report, the fifth meeting scheduled on 12 April is yet to be held. The Chairperson of the Working Group will therefore provide an oral update on the fifth meeting at the 117<sup>th</sup> session of the Executive Board, and the progress report to be submitted to the Board at its 118<sup>th</sup> session will include the synthesis of the fifth and sixth meetings of the Working Group.

## Synthesis of deliberations at the third meeting of the Ad Hoc Working Group on Governance

1. The third meeting of the Ad Hoc Working Group on Governance was held on 15 December 2015 at IFAD headquarters. Members participated from Angola, Argentina, Bolivarian Republic of Venezuela, Italy, Pakistan, United Kingdom and the United States. Representatives of Austria, Brazil, China, Costa Rica, Cuba, Cyprus, Dominican Republic, Ethiopia, Finland, France, Greece, Kenya, Kuwait, Liberia, Madagascar, Mexico, Norway, Russian Federation, Switzerland, United Arab Emirates, Yemen and Zimbabwe attended as observers.
- A. Opening of the meeting
2. The Chair of the Working Group, His Excellency Claudio Rozencwaig of Argentina, provided an overview of the discussions held during the first two meetings and the informal meetings of the Working Group. The Secretary of IFAD briefed the meeting on the process that had led to the recruitment of Mr Emmanuel Maurice as the international governance consultant whose task was to produce a report analysing the strengths and weaknesses of IFAD's List system, and comparing and contrasting systems of governance in multilateral development banks and global funds with the same governance structure as IFAD. The report would also look into the issue of replenishment cycles and propose a range of options for strengthening IFAD's current system to increase its effectiveness and enhance incentives for providing financial contributions to IFAD. Mr Maurice was welcomed to the meeting to present the preliminary findings of his review.
- B. Adoption of the agenda
3. The agenda of the meeting was adopted without amendment. It was agreed that short informal consultations would be held at the closure of the meeting between the consultant and each of the three Lists to provide an opportunity for a frank exchange of views.
- C. Representation of Member States in IFAD's governing bodies
4. Mr Maurice delivered a presentation on the main features of IFAD's List system and how it has evolved over time. The presentation provided a comparison with similar institutions with respect to voting and the number and allocation of Board seats. He suggested that, if a possible change to the current system was considered necessary, objectives could include: rebalancing representation, enhancing opportunities to express views and incentivizing replenishment contributions.
  5. Some of his preliminary proposals for rebalancing representation included facilitating transfers from List to List, reallocating Board seats, introducing a double majority system for decisions at the Governing Council and/or at the Executive Board, creating different Lists and sub-Lists, with new groups of members, and abrogating the List system.
  6. The consultant also suggested various means to ensure that a larger number of Member States gain a voice in replenishment consultations, such as increasing the number of List C participants, holding consultation meetings in List C member countries in order to showcase borrowing countries' needs and IFAD's activities, establishing a criterion for participation in consultations based on IFAD's activities in Member States, using IFAD's digital platforms more effectively, and delinking participation in consultations from the List system.
  7. In order to incentivize contributions, the following options were suggested by the consultant: increasing the number of List C members participating in replenishment consultations, basing the participation of Lists A and B members on recent contributions or on firm assurances of future contributions, making votes created in replenishments time-bound, giving increased weight to contributions in the creation

of new votes in replenishments, fostering a more disciplined burden-sharing approach to replenishments and rewarding compliance with additional contribution votes.

8. Representatives welcomed the presentation as comprehensive and detailed, and underlined that adequate time was needed to carry out consultations with respective Lists and capitals on the proposals put forward.
9. Other comments by members were as follows:
  - (a) One way of increasing the sense of engagement and involvement could be through better and more effective use of existing systems, including the constituencies. A review of how other institutions use constituency systems and distribute votes could be useful. It was also noted that IFAD's Board consists of 18 members and 18 alternate members, and that all have equal speaking rights. The total Board membership is therefore 36, higher than any other comparator institution listed in the presentation.
  - (b) It would be helpful to include other institutions with similar features such as the United Nations Children's Fund (UNICEF) and the Multilateral Fund for the Implementation of the Montreal Protocol as comparators.
  - (c) Further analysis should be carried out on the reasons for having IFAD's List system, including a possible scenario without a List system.
  - (d) On how to incentivize contributions, the link between seats on the Board and occasional lack of contributions should be addressed.
  - (e) When carrying out the comparator analysis, the programme size of different organizations should be taken into account.
  - (f) Priorities should be set with a view to improving the productivity and efficiency of the organization.
  - (g) The need to incentivize contributions was a shared view.

#### D. Review of IFAD's replenishment process

10. The Secretary of IFAD briefed the meeting on past discussion on the replenishment process, referring to the background document provided at the previous meeting of the Working Group.
11. The consultant provided a brief comparison of replenishment processes at similar institutions and described some possible implications of a longer replenishment cycle, as summarized below:
  - (a) A longer cycle would make it easier to match funding with country programmes, as a short-term cycle could constitute a challenge to long-term development planning.
  - (b) A longer cycle would allow more time to explore appropriate venues for the use of uncommitted funds.
  - (c) Fewer replenishment consultation meetings could bring about some savings.
  - (d) The risk of increased unpredictability of funding. In this regard, however, it was noted that lower contributions had not materialized after the Asian Development Fund (ADF) and European Development Fund (EDF) extended their replenishment cycles.
  - (e) A longer replenishment cycle could be beneficial to the quality of dialogue between IFAD and the Membership as it would be based on a midterm review covering two years. At the same time, there would be fewer opportunities for dialogue, with a resulting negative impact.

12. The consultant suggested that the issue be considered in the context of a broader reform of the consultation process.
13. The Acting Director, Partnership and Resource Mobilization Office, shared Management's views on the key issues raised by the consultant. He stated that it was nearly impossible to predict beforehand what the impact of an extension of the replenishment cycle would be on IFAD's replenishment level and that the examples of ADF and EDF did not provide much assurance as these differed from IFAD in many respects.
14. Regarding the impact on the provision of adequate funding for development programmes, Management underscored that this issue was not a hindrance to IFAD in its current replenishment cycle mode. On the cost-efficiency aspect, although IFAD might enjoy some cost savings in the long run, annual savings were unlikely to be high. Furthermore, although a one-year extension of the replenishment period might not have a major impact on the dialogue between the Membership and Management, the additional distance that it may create, particularly for a small institution such as IFAD, was cause for concern.
15. Members noted Management's vision of a broader reform as coordinating any extension of the replenishment periods of the Inter-American Development Bank, African Development Bank, and IFAD, perhaps with the International Development Association taking the lead; focusing on a few strategic issues with respect to replenishments; preparing fewer documents but not strictly limiting them to five as suggested; and making greater use of IFAD's digital platforms to improve efficiency of the replenishment process.

#### E. Workplan for 2016

16. The workplan for 2016 was adopted by the Working Group with some amendments. Accordingly, an additional meeting would be held on 20 January to focus solely on the replenishment process, while the March meeting would be moved to 12 April to allow the consultant additional time to finalize his report and members to review and consult with their capitals.

#### F. Other business

17. As suggested by the Working Group on Governance Bureau, brief informal consultations would be held between the consultant and each of the three Lists immediately after the formal Working Group meeting, to facilitate an open exchange of views.

## Synthesis of deliberations at the fourth meeting of the Ad Hoc Working Group on Governance

1. The fourth meeting of the Ad Hoc Working Group on Governance was held on 20 January 2016 at IFAD headquarters. Members participated from Angola, Argentina, the Bolivarian Republic of Venezuela, Denmark, Indonesia, Italy, Pakistan, United Kingdom and United States. Representatives for Brazil, Canada, China, Dominican Republic, France, Norway, South Africa, Spain, Sudan, Switzerland and Yemen attended as observers.
- A. Opening of the meeting**
2. Before beginning discussions, the Chair of the Working Group, His Excellency Claudio Rozencwaig of Argentina, informed participants of the recent demise of the Vice-Chair of the Working Group, Mr Tazwin Hanif, from Indonesia. He expressed sorrow at the sad news and asked the Indonesian delegation to convey the deepest sympathies of working group members, IFAD Management and the Chair to Mr Hanif's family.
  3. The Chair provided an overview of the envisaged timeline for the working group as contained in its workplan.<sup>1</sup> He also informed participants of the receipt of the draft report prepared by the international governance consultant, Mr Emmanuel Maurice. The report would be made available in English first, and then posted in the four official languages on 2 February as a restricted document for members. Members would have the possibility to provide their comments within a two-week time frame.
  4. The Secretary of IFAD shared a summary of the third formal meeting of the Working Group, as well as information on the revised timeline of deliverables by the consultant.
- B. Adoption of the agenda**
5. The agenda of the meeting was adopted without amendment.
- C. Review of IFAD's Replenishment process**
6. The international governance consultant recapped on some issues pertinent to the replenishment process and the possible implications of an extended replenishment cycle as raised at the December meeting. Information was also shared on the discussions and decisions regarding the replenishment cycles at other international financial institutions (IFIs).
  7. Mr Maurice underlined that an extension of the replenishment cycle could have a positive, negative or neutral effect on replenishment levels, the adequacy of funding, the efficiency and cost of the replenishment process and dialogue with members. He emphasized that reducing the number of consultation meetings from four to three in a four-year replenishment cycle would bring some – albeit limited – cost savings and reiterated that the issue should be examined within the framework of a broader reform of the consultation process. He suggested considering an extension of IFAD's replenishment cycle in coordination with comparable IFIs, such as the African Development Fund (AfDF) and the International Development Association (IDA).
  8. The Director, Partnership and Resource Mobilization Office (PRM) informed members that IFAD was already coordinating with other IFIs on replenishment matters. In this regard, the examples provided by the consultant of the Asian Development Fund and European Development Fund as agencies with four-year cycles may not be adequate comparators given the unique nature of those institutions. He agreed that a four-year replenishment would bring only limited cost savings and noted that the same result could perhaps be achieved by organizing

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<sup>1</sup> WGG 2015/3/L.2/Rev.1.

fewer meetings during the replenishment consultations. Notwithstanding the view that the effects of a longer replenishment cycle would be difficult to predict, he summarized Management's concerns as being reduced dialogue with Membership and risks of delinking IFAD's replenishment process from the two other similar IFIs. He recommended that:

- (i) Any extension be considered in the context of a broader reform involving the coordination of the extension of replenishment periods with other IFIs, with perhaps IDA taking the lead; and
- (ii) The replenishments focus on a limited number of strategic issues.

9. Some views voiced by members are summarized below.

- While some members supported extending the replenishment cycle to four years, others raised concerns about the possible negative impact of a longer cycle on the level of contributions, also given the current challenges in reaching the target for IFAD10.
- Replying to a member's proposal to extend the replenishment cycle to four years on a pilot basis and go back to three if necessary, the consultant strongly advised against this option because of the difficulties involved in the process.
- Some members suggested that the replenishment issue should be considered as a "package" of which cycle length would be only one element; discussions should therefore also consider the effectiveness and efficiency of the consultation process. On this note, while commending IFAD Management for the good progress made, in particular regarding the last two replenishment exercises, it was suggested that there was still margin for improvement, in particular regarding the need for Member States to obtain a clearer picture of the outcomes of the replenishment processes.
- The cost-savings aspect of an extended replenishment cycle was welcomed, although it was recognized that such savings would be limited.
- With respect to Management's concern regarding possible reduced dialogue, a member suggested making enhanced use of the Governing Council as a forum for consultation.
- The opinion was expressed that Management should have a frank and open dialogue with each Member State, as well as with sister agencies, on the possible consequences of a longer cycle. With regard to the suggestion to harmonize with other IFIs and establish a dialogue with them on this issue, one member pointed out that the equivalent governance working groups of these institutions had already completed their tasks. Their replenishment periods were about to start and therefore these WGs would not be re-established until perhaps the end of the replenishment. The view was also expressed that it would be advantageous for IFAD to take the lead in this issue and differentiate itself from other institutions, especially the bigger IFIs.

10. In conclusion, it was decided that some questions would be included in an annex to the upcoming consultant's draft report to allow members to provide their views on a possible extension of the cycle as well as any comments on the draft report itself.