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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 at the thirty-eighth session of the Governing Council in February 2015, the Ad Hoc Working Group on Governance has held six meetings and a number of informal consultations.
2. Deliberations held at the first four meetings were documented by the two progress reports presented to the Executive Board at its 115<sup>th</sup> session in September 2015 (EB 2015/115/R.24/Rev.1) and its 117<sup>th</sup> session in April 2016 (EB 2016/117/R.17), respectively.
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 fifth and sixth meetings of the Working Group, which were held, respectively, on 12 April 2016 and 24 June 2016. It is expected that, at the seventh meeting scheduled for 10 October 2016, the Working Group will finalize the report on the results of its deliberations. As agreed at the June meeting, should further discussion be needed on the draft report, an additional formal meeting will be held on 4 November 2016. The final report, together with any recommendations, will be presented to the Executive Board at its 119<sup>th</sup> session in December 2016, for transmittal to the Governing Council in February 2017.

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

1. The fifth meeting of the Ad Hoc Working Group on Governance was held on 12 April 2016 at IFAD headquarters. All members of the Working Group attended the meeting. The following representatives attended as observers: Afghanistan, Brazil, Canada, China, Cuba, Cyprus, Dominican Republic, Egypt, Finland, France, Guatemala, India, Lesotho, Mexico, Netherlands, Norway, Russian Federation, Sudan, Switzerland, United Arab Emirates, Uruguay, Yemen, Zambia and Zimbabwe.
- A. Opening of the meeting
2. The Chairperson informed participants that, as foreseen in the workplan for 2016, the purpose of the fifth meeting was to discuss the final report prepared by the international governance consultant. As tasked by the Working Group in November 2015, the consultant had carried out a study to review the governance and representation systems at IFAD and those of other international financial institutions (IFI) for comparison purposes, in order to provide Member States with an analysis of possible models for their consideration. The study also presented possible options for the length of the replenishment cycle. The draft report had been dispatched to Working Group members for their comments further to the fourth meeting of the Working Group in January 2016. Comments received had been incorporated into the final report, which had been made available on 16 March 2016.
- B. Election of the Vice-Chairperson of the Working Group from List B
3. As per article 10 of the Terms of Reference of the Working Group, Mr Des Alwi, Deputy Permanent Representative of the Republic of Indonesia, was elected ad personam the Vice-Chairperson of the Working Group from List B, following the tragic death of Mr Tazwin Hanif in December 2015.
- C. Adoption of the agenda
4. The agenda of the meeting was adopted without amendment.
- D. Final report of the international governance consultant
5. The international governance consultant presented his final report on IFAD's governance. His presentation focused on the appropriateness and relevance of the List system to ensure an adequate representation of members of the Executive Board and an adequate distribution of the voting power in the organization. The view was highlighted that the principles on which the List system was established were still relevant, namely: grouping like-minded countries; paying attention to regional and subregional representation; and recognizing the role of developing countries on the Board and the need to maintain a link between contributions and voting rights. Although the consultant argued that these principles were still relevant, the Lists had become heterogeneous and there were some anomalies now in their composition. Thus, in today's geopolitical and global economic context, the List system may have become unfit for purpose.
  6. In order to address the List system's weaknesses, the consultant suggested three options in his report. The first option would consist of a clarification of the current composition of the Lists. This would entail clarifying the composition and amending the applicable rules accordingly for joining a List and for moving from one List to another. Under this scenario, a new Member would join the List that best corresponded to its status. Changing from one List to another would no longer be subject to the acceptance of the receiving List.
  7. Option two would also require a clarification of the composition of the Lists as follows: Lists A and B would be composed only of non-recipient Members whereas

List C would regroup all recipient Members. This option would also require an amendment to the applicable rules for joining and changing Lists.

8. In the third option, the consultant suggested amending the composition of List C and creating a fourth list (List D). Under this option, List C would regroup Members that are eligible for IFAD financing on ordinary terms and List D would consist of countries eligible to borrow on highly concessional or blend terms. This option would also require amending the applicable rules for joining and changing Lists.
9. In all three options, Board seats would be initially and periodically reallocated between Lists and sub-Lists in order to take account of transfers and the evolving voting power of each List and sub-List.
10. The consultant underlined the need to recognize the role of developing countries in IFAD's governance and considered the current system to be suitable in this respect. However, he concluded that the system may not incentivize contributions. To this end and in order to create such incentive, the consultant suggested expanding the principle set out in schedule II, paragraph 27 of the Agreement Establishing IFAD, to provide that only those members that had made substantial contributions in the most recently completed replenishment could be appointed as Members or Alternates on the Executive Board. According to the consultant, optional Board seats for the largest contributors could be additional to existing seats.
11. The members of the Working Group acknowledged the complexity of the issue and expressed their appreciation for the report.
12. Overall, members agreed on the need for a clear definition of the Lists as well as the rules for joining and transferring between Lists. Many members voiced their support for the principle whereby each List would be composed of like-minded countries.
13. One List C member argued that representation of their List on the Executive Board should be revised, and that option one could be supported with some modification. While endorsing the idea of linking the representation issue with incentivizing contributions, the majority of members highlighted that past contributions should continue to play a role in representation. One List B member argued that the level of contributions of List B should be viewed from a historical perspective to allow for a comparison with other Lists. In addition, the member suggested that allocation of additional seats to List C should be based on the fact that certain List C countries contributed more than some countries in List A.
14. There were divergent views on the proposal to link Board seats to a certain threshold in the most recent replenishment. Some members argued that this arrangement would be to the detriment of some small countries, which would never be able to reach a given threshold even if they significantly increased their contributions.
15. Regarding the voting system, List C members voiced their support for keeping the current allocation of one third of the total votes as membership votes to List C.<sup>1</sup>
16. Other ideas put forward by members were as follows:
  - (i) A non-List governance structure, which had been described in the draft report, could still be considered.
  - (ii) A special provision could be adopted for members who are both contributors and recipients, in order to avoid allocating votes on the basis of their contribution and on the basis of the "one-third rule".
  - (iii) Opening the Board sessions to members as observers with a right to speak but without a right to vote could also be considered.

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<sup>1</sup> Article 6, section 3(a)(iii) of the Agreement Establishing IFAD.

- (iv) Classification of members according to the categories defined by lending terms was deemed useful although objective criteria should be established for this classification.
17. The second part of the meeting was devoted to the replenishment process. The consultant presented his recommendations, recalling that the List system was taken into account when determining the number of participants in the replenishment consultations. For List C, he suggested considering other selection criteria such as the level of contributions and the ability to provide firm funding undertakings for specific activities. In this light, he suggested that the number of participating recipient members be limited to no more than six from those eligible for highly concessional/blend lending terms, in addition to members that had made significant contributions in the last replenishments.
  18. As highlighted at the fourth meeting, the consultant reiterated that extending the replenishment cycle to four years would improve the adequacy and predictability of funding for IFAD's development programmes and could prove more efficient and less costly. However, it might have an impact on the dialogue between IFAD and its Members and on the level of replenishments.
  19. He underlined that the extension of the cycle should be part of a broader reform, and suggested exploring the possibility of coordination with the replenishments of the African Development Fund (AfDF) and the International Development Association (IDA).
  20. In response to the consultant's final report, Management provided its views on the issue of replenishments, and informed members of the ongoing close collaboration with the replenishment teams of the AfDF, Asian Development Fund (AsDF) and IDA. It was highlighted that unlike other international financial institutions, IFAD relied heavily on voluntary contributions from Member States, whose participation in the replenishment consultations was one way of encouraging contributions. Therefore, a larger participation would act as an incentive for Member States to contribute. However, Management underlined that this issue was firmly within the purview of the Member States.
  21. Management reminded participants that there was currently a natural "policy diffusion" among the AfDF, IDA and IFAD replenishments, which helped all three institutions to address simultaneously issues on the global agenda, even if IFAD's replenishment lagged a year behind those of the other two. Management expressed concerns over the possibility of delinking IFAD's replenishment from those of the AfDF and IDA and extending the replenishment period on its own, and agreed with the consultant's view that the issue should be considered in the context of a broader replenishment reform agenda. This process should include coordinating with the AfDF and IDA and focusing the replenishments on a few strategic issues, with a reduced number of commitments and a limited number of papers.
  22. The issues related to the replenishment process would be discussed in greater depth at a future meeting. Furthermore, it was agreed that all the topics covered by the Working Group would be discussed at an informal meeting in May, prior to the sixth meeting of the Working Group scheduled on 24 June.

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

1. The sixth meeting of the Ad Hoc Working Group on Governance was held on 24 June 2016 at IFAD headquarters. Members participated from Angola, Argentina, Denmark, Indonesia, Italy, the United Kingdom, the United States and Venezuela (Bolivarian Republic of). Representatives for Brazil, Burkina Faso, Canada, China, Costa Rica, Egypt, France, Gabon, Germany, Kenya, Madagascar, Mali, Morocco, Mozambique, the Netherlands, the Russian Federation, Sudan and Switzerland attended as observers.
- A. Adoption of the agenda
2. The agenda of the meeting was adopted without amendment.
- B. Draft report of the Ad Hoc Working Group on Governance
3. The Chairperson provided a comprehensive overview of the discussions held during the two informal gatherings that took place on 26 May and 22 June 2016. The Working Group expressed appreciation for the overview.
  4. Discussions focused on a possible reform of IFAD's replenishment cycle and the List system. The main issues and arguments raised in this context are summarized below.
  5. Replenishment issues:
    - (i) Extension of IFAD's replenishment cycle. It was suggested that the extension of IFAD's replenishment cycle from three to four years could be proposed to the Governing Council as part of a broader reform package and to be effective as of IFAD12 (2022-2025) in order to allow enough time for IFAD Membership and Management to prepare for and carry out necessary adjustments. It was noted that more consultation would be required across the membership to reach consensus.
    - (ii) Criteria for participation in replenishment consultations. Some members suggested that decisions be taken regarding participation in replenishment consultations once agreement on the List system had been reached. Other avenues that would delink participation in replenishment consultations from the List system, as proposed in the report of the international governance consultant, could also be considered. The idea of setting a certain threshold for contributing countries was raised; however, one member considered this criterion difficult to implement, as members would be requested to commit in advance to a certain threshold. Another proposal raised by some members was to redistribute some seats and allocate them to low-income List C countries and to potential or major List C contributors, with a view to incentivizing contributions to the Fund. On the other hand, it was also stated that it would be difficult to consider this option before any decision was taken on the List system. Some List C members put forward the idea of excluding those List A and List B members from consultation replenishments who had not contributed or contributed less than List C members to the current replenishment. However, some List A members raised concerns about this proposal, and a member expressed concern that excluding some countries from consultations could result in a reduction in contributions. Another idea suggested by a List A member was to use voting power as a criterion, which would also allow cumulative contributions to be taken into consideration for participation in consultations. This was also supported by a List B member. There was, however, general consensus on more-inclusive replenishment consultations.

- (iii) Format and structure of replenishment sessions. Members identified possible areas that could be covered within a reform package, including number of meetings, the agenda-setting process; number of items on the agenda and length of documents in order to achieve more-efficient and effective consultations. It was stressed that consultations should yield clear commitments with concrete targets; produce better-targeted papers to ensure efficiency; and prioritize more strategic issues. The Chairperson identified greater participation in agenda-setting as a means of enhancing efficiency and effectiveness of replenishment consultations. One member suggested having informal prior discussions with members and IFAD Management to identify priority issues and limit the number of items on the agenda.
  - (iv) Having an independent external chair for replenishment consultations. It was suggested that the practice of having an independent external chair, which has already been followed for the last two replenishment consultations, could be formalized in the reform package.
6. List system. Five List options were suggested during the discussions; three of these were as proposed in the report of the international governance consultant and two were as proposed by the Chairperson. The first additional option proposed by the Chairperson was a three-List system based on the categorization of members using the World Bank criteria.<sup>2</sup> Accordingly, Member States would be divided into three groups: high-income countries (List A), middle-income countries (List B), and low-income countries (List C). The second option proposed by the Chairperson would be to maintain the current List system but divide List C into three sub-Lists, again based on financial criteria instead of regional groupings. Consequently, List C would be composed of high middle-income countries (sub-List C1), low middle-income countries (sub-List C2), and low-income countries (sub-List C3). Another issue raised by the Chairperson at the meeting was the need to define criteria for membership of the Lists and to clarify procedures for transfer from one List to another.
7. Representation issues:
- (i) Establishing one or more floating seats for the Executive Board was suggested to allow for better representation by the highest-contributing countries in List C. Some members stated their readiness to consider this proposal, noting, however, that its possible implications had to be presented to the Working Group.
  - (ii) One List C member argued that some seats allocated to List B on the Executive Board could be yielded to List C in order to better reflect the increasing level of contributions of List C and the number of countries in this group.
  - (iii) One List A member drew attention to the need to ensure that current systems, including the use of Board seats, were used to maximize effectiveness, also in terms of representation.
8. Some participants expressed their disappointment over the lack of consensus as they considered a reform to IFAD's governance necessary. On the other hand, it was observed that it was not easy to reach consensus across the entire

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<sup>2</sup> Following the meeting, with the agreement of the Chairperson, it was suggested that the simulations of the two additional List options would be based on the groupings as per IFAD lending terms instead of a category created by another institution. The purpose of using IFAD financing/lending terms as a criterion was to facilitate a more accurate comparison with the first three options as proposed in the report of the consultant as these List options also used IFAD financing/lending terms as a basis. Accordingly, the first additional List option would consist of non-recipient countries (List A), countries eligible for ordinary lending terms (List B), and countries eligible for blend and highly concessional lending terms (List C), whereas the second additional List option would keep List A and List B with their current composition, but divide List C into three groups: Countries eligible for ordinary lending terms (sub-List C1), countries eligible for blend lending terms (sub-List C2) and countries eligible for highly concessional lending terms (sub-List C3).



membership on such fundamental change and that the process of consultation was important.

9. Management expressed appreciation for the discussions and for the consideration of an extension to the replenishment cycle, not as a standalone change but within the context of a broader reform package. While recognizing the benefit of a four-year cycle to allow the mid-term review to cover a longer period, Management raised concerns about a delinking of IFAD's replenishment cycle from those of the International Development Association and the African Development Bank and expressed caution on how to ensure sufficient funding sources for a four-year cycle. Responding to a question, Management clarified that should an extension to four years be implemented, IFAD's projects and programmes would be adjusted accordingly. For this reason, it would be difficult to return to a three-year cycle should the extension prove unsuccessful.
10. The Chairperson raised the possibility of requesting the Governing Council to extend the Working Group's mandate for another year, in case no agreement was reached on a reform of the List system and representation issues. While some members supported this possibility, other members stated that the Working Group should first agree that such an extension would be of value. It was noted that the Governing Council should decide on this matter. If the Working Group concluded that reaching a consensus on significant changes was unlikely, there were some minor adjustments that could be made to the existing system.
11. Some members stated that it was still early to express a view on the List options and other proposals raised at the meeting. It was requested that a brief paper be drafted by the Office of the Secretary and shared with the Working Group by mid-July to provide a general outline of the issues, to simulate the five List options and to list other issues discussed in the framework of a possible reform package. It was agreed that the draft paper would serve as a basis for further consultations among Lists. Feedback on the paper should be sent to the Office of the Secretary by 3 September 2016.
12. Based on the feedback received, a draft report would be prepared and shared in all languages on 26 September 2016 and discussed at the seventh formal meeting on 10 October 2016.
13. It was decided that should further discussion be needed on the draft report, an additional formal meeting would be held on 4 November 2016.