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

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Ad Hoc Working Group on Governance – Third Meeting
Rome, 15 December 2015

For: Information

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 (terms of reference with revised timeline are contained in annex I). 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 presentation¹ 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

¹ The presentation is provided in appendix I.

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:²
 - (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.

² The presentation on the replenishment process is provided in appendix II.

- (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. A revised timeline of deliverables to members of the Working Group on Governance is herewith attached as annex II.

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.

Revised terms of reference for the international governance consultant: General description of task(s) and objectives to be achieved

Background

The IFAD Ad Hoc Working Group on Governance issues (WGG) was established as part of the Report of the Consultation on the Tenth Replenishment of IFAD's Resources, approved by the thirty-eighth session of the Governing Council in February 2015. The objectives of the Working Group are to (a) review and assess the governance-related recommendations arising from the corporate-level evaluation on IFAD replenishments, particularly with regard to the structure, appropriateness and relevance of the IFAD List system, and review and assess the implications and potential impact on all IFAD governing bodies of any changes to the List system as well as Member State representation; (b) review and assess the composition and representation of the replenishment consultation and the length of replenishment cycles in IFAD11 and beyond; and (c) make proposals on (a) and (b) above for consideration by the Executive Board for submission to the Governing Council, as appropriate.

Within this framework, the short-term international consultant will carry out a study to review governance and representation systems at IFAD, other international financial institutions – specifically multilateral development banks (MDBs) and global funds – and provide an analysis of possible options of representation systems for the consideration of IFAD Member States. The study should also review and assess the implications and potential impact on all IFAD governing bodies.

The assignment will provide a detailed and thorough review for the Working Group on Governance that will serve as a basis for their discussions/deliberations towards improving governance and representation at IFAD.

The consultant will have a strong background in international governance issues and be familiar with the governance systems of international organizations. The work will be completed over a period of up to 30 days between 1 November 2015 and 12 April 2016.

Specific activities:

- Carry out a thorough review and analysis of the structure, appropriateness and relevance of governance and the IFAD List system, highlighting the strengths and weaknesses and providing suggestions for eventual improvement.
- Compare and contrast governance and representation systems at IFAD with those at other MDBs and funds (such as the Global Environment Facility), clearly highlighting the main differences and areas for improvement.
- Consider how governance and representation can help strengthen financial incentives.
- Provide specific options of possible governance and representation systems for consideration by the WGG.
- Assess the implications of the results of the corporate-level evaluation on governance and the potential impact on all IFAD governing bodies with regard to any changes to the List system as well as Member State representation.
- Review relevant documentation pertaining to governance and representation at IFAD and provide actionable proposals to take in the short, medium, and long run for the improvement of IFAD's governance.

Key performance indicators

| <i>Expected outputs/deliverables:</i> | <i>Required completion date/timeline</i> |
|--|---|
| <p>The consultant shall produce a report that:</p> <ul style="list-style-type: none"> • analyses the strengths and weaknesses of IFAD's system. • provides a detailed written assessment comparing and contrasting systems of governance in MDBs and global funds with IFAD's governance structure. This assessment will include an analysis of the strengths and weaknesses of each system. • proposes a range of options for strengthening the current system to: <ul style="list-style-type: none"> (i) increase effectiveness and (ii) enhance incentives for providing financial contributions to IFAD. <p>The consultant will share a first draft of the report on 18 January 2016, allowing for comments from WGG bureau members. The consultant will incorporate suggested changes from members into the final report by 16 February 2016 and then present the findings at the Working Group meeting on 12 April 2016.</p> <p>Timing of deliverables:</p> <ul style="list-style-type: none"> • Preliminary Skype meeting with WGG Bureau and Secretary of IFAD to discuss the expected output (in November). • Presentation and exchange of preliminary views at the WGG meeting on 15 December (option of travel). • Draft report to be provided by 18 January 2016. (The draft report shall not exceed 10,000 words.) • Contribution to discussions on IFAD's replenishment process on 20 January 2016 (option of travel). • Incorporate comments by the WGG and submission of final report by 29 February 2016. • Presentation at WGG meeting on 12 April 2016 (option of travel). | <p>Preliminary findings at WGG meeting: 15 December 2016</p> <p>Draft report to IFAD: 18 January 2016</p> <p>Final report to IFAD: 29 February 2016</p> <p>Presentation at WGG meeting: 12 April 2016</p> |

Revised timeline of deliverables by the international governance consultant

(based on decisions made at the third Working Group on Governance meeting, 15 December 2015)

| | |
|---|---|
| Draft report to IFAD | Monday, 18 January 2016 |
| Contribution to discussions on IFAD's replenishment process | Wednesday, 20 January |
| Dispatch to WGG members in all languages for comments | Tuesday, 2 February (two weeks allowed for comments) |
| Deadline for members' comments | Tuesday, 16 February |
| Final report to IFAD | Monday, 29 February |
| Dispatch of final report to WGG members in all languages | Wednesday, 16 March (four weeks before the meeting) |
| Dispatch of Management's comments | Tuesday, 22 March (three weeks before the meeting) |
| Presentation at WGG meeting | Tuesday, 12 April |

Presentation to the Ad hoc Working Group on Governance on the List System

LIST SYSTEM

PRESENTATION TO THE AD HOC WORKING GROUP ON GOVERNANCE

15 December 2015

Emmanuel Maurice

1

THE LIST SYSTEM

The List system has been described as having “far-reaching implications for governance, voice and representation”. In 2013, CLEE questioned whether it was “**still relevant in today's global context**”. The Working Group on Governance has been charged with **reviewing and assessing the structure, appropriateness and relevance of the IFAD List system.**

- ❖ **Main features**
- ❖ **Representation**
- ❖ **Replenishment voice and votes**
- ❖ **Evolution**
- ❖ **Comparator Institutions**
- ❖ **Need for change?**
- ❖ **Re-balancing representation**
- ❖ **Enhancing voice opportunities**
- ❖ **Incentivising contributions**
- ❖ **Conclusion**

2

MAIN FEATURES

- The List System consists in a division of IFAD's shareholders in **three distinct groups**: Lists A, B and C. Currently:
 - ❖ List **A** has **25** Members,
 - ❖ List **B** has **12** Members and
 - ❖ List **C** has **139** Members.
- List C is subdivided into 3 Sub-lists:
 - ❖ Sub-list C1: **Africa**
 - ❖ Sub-list C2: **Europe , Asia and Pacific**
 - ❖ Sub-list C3: **Latin America and the Caribbean**
- A **new Member decides on which List** it wishes to be placed and, after **consultation** with the Members of that List, gives notice of its choice to the President .
- A Member may **withdraw from a List and join another List** (subject to **approval** of the Members of that List), at the time of elections for the Board.
- The List System has **three applications: representation, voice and votes.**

3

REPRESENTATION

- The List System is **used to allocate the 18 Board member seats and the 18 Board alternate member seats** between the three Lists and three Sub-lists as follows:
 - ❖ List **A**: **8** members and **8** alternate members
 - ❖ List **B**: **4** members and **4** alternate members
 - ❖ Sub-lists **C1, C2 & C3**: **2** members and **2** alternate members each
- Board members and alternate members of each of the Lists A, B and C are **elected by the Members of the relevant List.**
- For Sub-lists C1, C2 and C3, at least **one Board member** and **one Board alternate member** must be from among the Members in that Sub-list making **the highest substantial contributions** to IFAD's resources.
- Each of the **List A and List B** Board members exercises **all the voting power** of those Members which have elected them. Each of the two Board members elected by a Sub-list exercises **half of the voting power** of all the Members of that Sub-list.
- The List System is used to allocate seats on the **Emoluments Committee**, the **Audit Committee**, the **Evaluation Committee** and various **Working Groups.**

4

REPLENISHMENT VOICE & VOTES

- The List System is also used in the context of **IFAD's replenishments**.
- The List System is used to determine which Members will participate in the replenishment consultation. For **IFAD 9** and **10**, the Governing Council decided that the following Members would participate:
 - ❖ List **A**: **all** Members
 - ❖ List **B**: **all** Members
 - ❖ List **C**: **18** Members appointed by the Members of List C.
- Since 1997, the List System is used to ensure that, in each replenishment, List C Members are allocated **one third of the total new votes as membership votes**.
- At present the voting power is allocated as follows:
 - ❖ List **A**: 47.2%
 - ❖ List **B**: 14.5%
 - ❖ List **C**: 38.3%.

5

EVOLUTION

- There is a **new global economic power architecture**: new countries have emerged, non-traditional donors have appeared on the international stage.
- **List B** Members' contributions have **decreased significantly** over time.
- **List C** has become a **very large group of 139 Members** which share 6 Board member and 6 Board alternate member seats.
- Six of **List C** 12 Board seats are **reserved** for the highest contributors in each Sub-list, leaving **little chance** of other List C Members ever securing a Board seat.
- **List C** Members as a group have become a **substantial contributor** to replenishments, and a larger number of them make contributions to IFAD than to other IFIs, showing their sense of ownership of the institution.
- Some **List C** Members **keep increasing their core contributions**, which, at times, are larger than those of several List A and B Members.
- **The 2011 increase from 15 to 18 of List C** Members invited to participate in the replenishment consultation **may still not be sufficient**.
- **List C** Members **make their voice heard more and more** in replenishment debates (but don't participate by submitting proposals to amend the replenishment report draft.)

6

COMPARATOR INSTITUTIONS

| Name | Rep / Cap | No. Of Members | Groups of Shareholders | Voting power | Total Board | Allocation of Board seats |
|------|-----------|----------------|--|-------------------------|-------------|---|
| IFAD | Rep | 176 | A 25 B 12 C 139 | 47.2% 14.5% 38.3% | 18 | 8 4 6 |
| GEF | Rep | 183 | A Non Recipient B Africa C Asia & Pacific D Latin America E C&E Europe & FSU | | 32 | 14 4 6 6 2 |
| IBRD | Cap | 188 | A 6 largest B all others | 40% 60% | 25 | 6 19 |
| IDA | Rep | 173 | A 6 largest B all others | 34% 56% | 25 | 6 same as IBRD EDs 19 same as IBRD EDs |
| IFC | Cap | 184 | A 6 largest B all others | 43% 57% | 25 | 6 same as IBRD EDs 19 same as IBRD EDs |

7

COMPARATOR INSTITUTIONS

| Name | Rep / Cap | No. Of Members | Groups of Shareholders | Voting power | Total Board | Allocation of Board seats |
|------|-----------|----------------|--|--------------------------|-------------|---------------------------|
| IFAD | Rep | | A 25 B 12 C 139 | 47.2% 14.5% 38.3% | 18 | 8 4 6 |
| AfDB | Cap | | A 54 Regional B 27 Non-regional | 60% 40% | 20 | 13 7 |
| AsDB | Cap | | A 48 Regional B 19 Non-regional | 65% 35% | 12 | |
| EBRD | Cap | | A 13 EU members B 9 Non-EU European C 37 Recipient D 7 Non European | 51% 10% 15% 24% | 23 | 11 4 4 4 |
| IDB | Cap | | A 26 Borrowing Reg. B 2 Non borrow Reg. C 16 Non Regional | 50% 34% 16% | 25 | 6 19 |

8

NEED FOR CHANGE?

Objectives

- Re-balancing representation
- Enhancing voice opportunities
- Incentivising replenishment contributions

9

RE-BALANCING REPRESENTATION

Re-balancing representation can be achieved by various means, including:

- **Facilitating transfers** from List to List
- Making the **number of Board seats** allocated to each List and Sub-list **proportional** to their respective share of **voting power**
- **Redistributing** Board seats among Lists
- **Removing the requirement** of Board seats **reserved** for highest contributors
- **Increasing** the number of 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
- **Abrogating** the List System: **one single List.**

10

ENHANCING VOICE OPPORTUNITIES

Giving a **larger number of Members a voice** in replenishment consultations can be achieved by various means, including:

- **Increasing** the number of List C Participants **beyond 18**
- **Establishing criteria** for participation in replenishment consultations based on level of IFAD's **activities in Members** or other (non-contribution related) objective factors
- **Holding** replenishment consultation **meetings in List C Members** in order to showcase borrowing countries' needs and IFAD's activities
- Using IFAD's **digital platforms more effectively** (and creating new ones if appropriate) to carry out, between replenishment consultations, a substantive dialogue between IFAD Management and Members' capitals
- **De-linking** participation in replenishment consultations from the List System and substituting another selection process for participation in replenishment consultations.

11

INCENTIVISING CONTRIBUTIONS

Incentivising contributions can be achieved by various means, in particular:

- **Increasing** the number of **List C Members** allowed to participate in replenishment consultations
- **Conditioning** the participation of Lists A and B Members on **recent contributions** or **firm undertakings** of future contributions
- Making **votes** created in replenishments **time-bound**
- Giving an **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.

12

CONCLUSION

To conclude, a note of **caution**:

- A few of the possible steps outlined in the foregoing three slides, have already been discussed in various **Ad Hoc Committees or Working Groups**, and in certain cases, presented to the Executive Board where no consensus was reached.
- The list of these steps **is preliminary and does not purport to exhaustive** and is. It has been established without the benefit of prior consultation with any member of the Working Group on Governance or any other member of the Executive Board. Such **consultations are necessary** and should take place in the coming weeks. **Further research** will also be needed to confirm whether or not these steps are legally and politically consistent with IFAD's institutional framework.

13

LIST SYSTEM

PRESENTATION TO THE AD HOC WORKING GROUP ON GOVERNANCE

15 December 2015

Emmanuel Maurice

14

REPLENISHMENT

PRESENTATION TO THE AD HOC WORKING GROUP ON GOVERNANCE

15 December 2015

Emmanuel Maurice

1

OVERVIEW

- ❖ **Current cycle**
- ❖ **Consultation phase**
- ❖ **A longer cycle?**
- ❖ **Comparator institutions**
- ❖ **Extension**
- ❖ **Potential effects**
 - *Level of replenishments*
 - *Adequacy of funding for development*
 - *Efficiency of process*
 - *Dialogue with members*
 - *Impact of other IFIs' replenishments*
- ❖ **Preliminary conclusions**

2

CURRENT CYCLE

- Currently the total replenishment cycle is **5 years**:
 - ❖ **one year for consultation (C),**
 - ❖ **one year for replenishment to become effective (E), and**
 - ❖ **three years for implementation (I).**
- The **first two years overlap** with the last two years of the previous cycle.

| | 08 | 09 | 10 | 11 | 12 | 13 | 14 | 15 | 16 | 17 | 18 |
|---------|----|----|----|----|----|----|----|----|----|----|----|
| IFAD 8 | C | E | I | I | I | | | | | | |
| IFAD 9 | | | | C | E | I | I | I | | | |
| IFAD 10 | | | | | | | C | E | I | I | I |

3

CONSULTATION PHASE

- The consultation process is a **phase of dialogue** between IFAD and its **Members** during which IFAD:
 - ❖ **reports** on its past and current results, strategies and reforms;
 - ❖ **seeks guidance** for the medium-term (**priorities and programmes**); and
 - ❖ **mobilises resources** for the next replenishment period.
- The consultation process includes **four meetings**, the first of which is used to present the **Mid Term Review (MTR)** for the current replenishment period.
- All consultation meetings are held at **headquarters**.
- Since 2011, all consultation meetings are chaired by an **external chair**.
- Each consultation process is **concluded with a report and resolution** which are submitted for approval by the **Governing Council**.
- The report and resolution together document an agreement on IFAD's **strategic priorities, programme of loans and grants, and funding modalities, including pledges, to finance IFAD's activities during replenishment implementation period**.

4

A LONGER CYCLE?

Among other replenishment issues, the length of the cycle is under review:

- ❖ “The duration of the replenishment and ways to broaden IFAD’s engagement with its membership in the process are issues that need further study.” (CLER, 2014, Executive Summary, paragraph 23)
- ❖ “An inter-Consultation working group will be established to consider governance issues. In particular, the working group will: [...] review and assess the composition and representation of the replenishment consultation and the length of replenishment cycles in IFAD11 and beyond.” (Terms of Reference of the Ad Hoc Working Group on Governance Issues, paragraph 4)
- ❖ “The replenishment process for concessional resources of the multilateral development banks is broken. [...] So what’s to be done? We recommend the following measures to fix the replenishment consultation process: [...] Reduce the number of meetings for each replenishment round to no more than three and lengthen the replenishment period from three to four years or more.” (Johannes F. Linn and Anil Sood, Brookings, September 2015)

5

COMPARATOR INSTITUTIONS

| IFAD and comparators | Cycle | Extension | When |
|--|---------|-------------------------|--------------|
| International Fund for Agricultural Development (IFAD) | 3 years | Under review | 2015 |
| African Development Fund (AfDF) | 3 years | Considered and rejected | 2009 2015 |
| Asian Development Fund (AsDF) | 3 years | 4 years | 1979 |
| European Development Fund (EDF) | 5 years | 6 years 7 years | 2008 2014 |
| Global Environment Facility (GEF) | 4 years | – | – |
| Global Fund to fight AIDS, tuberculosis, and malaria (GFATM) | 3 years | – | – |
| International Development Agency (IDA) | 3 years | Considered and rejected | 2001 |

6

COMPARATOR INSTITUTIONS

IDA 2001

“The balance of opinion seemed to be that **retaining the three-year cycle in IDA13 was the preferred course at this time**. Several noted, however, that there could be merit in revisiting the issue later in the replenishment process.” (IDA, Three-Year or Four-Year Replenishment Cycle, Results of Consultation with Donors, January 2001)

AfDF 2009

“Management proposes to **maintain the 3-year replenishment cycle for ADF-12 (2011-2013) but to consider introducing a 4-year cycle as of ADF-13 (2014-2017)**, to be discussed and confirmed during the ADF-12 or ADF-13 replenishment discussions.” (AfDF, Options to improve the cost-effectiveness of the replenishment process, 2009)

AfDF 2015

IDEV Recommendation 3: “Moving to a longer replenishment cycle, drawing on the experience of AsDB” (AfDB, Independent Evaluation of GC VI, ADF12 and 13 Commitments, September 2015) - Management response: “There currently are different perspectives on lengthening ADF replenishment cycles from three to four years. [...] **Management’s view at this time is to retain the 3-year cycle for at least ADF-14, with the view of revisiting the issue later.**”

7

EXTENSION

A four year cycle for IFAD?

- “The three-year replenishment cycle has never been seriously questioned; yet a **four-year cycle, as that used in the AsDF, might have some advantages**. [...] Judging by responses to interviews and the survey for this evaluation, several respondents from all three Lists felt their government would not have strong reservations to a possible four year replenishment.” (CLER, 2014, Report paragraph 89).
- The **first two years would still overlap** with the last two years of the previous cycle:

| | 14 | 15 | 16 | 17 | 18 | 19 | 20 | 21 | 22 | 23 | 24 | 25 | 26 |
|-------------------|----|----|----|----|----|----|----|----|----|----|----|----|----|
| IFAD 10 (3 years) | C | E | I | I | I | | | | | | | | |
| IFAD 11 (4 years) | | | | C | E | I | I | I | I | | | | |
| IFAD 12 (4 years) | | | | | | | | C | E | I | I | I | I |

8

EFFECTS OF A LONGER CYCLE

A longer cycle may have positive, neutral or negative effects on:

- ❖ the level of replenishments
- ❖ the adequacy of funding for development programmes
- ❖ the efficiency and cost of the replenishment process
- ❖ the dialogue with members
- ❖ the coordination with replenishments in other institutions

9

LEVEL OF REPLENISHMENTS

- A longer replenishment cycle may have a negative effect on the level of replenishments if donors' pledges on an annualised basis are not scaled up proportionally. This potential effect was considered at IDA and AfDF when they considered the extension of their cycle to 4 years:

"Most donors took the view that the key consideration for changing the replenishment cycle would be the likely effect on the level and stability of IDA resources. [...] Some donors were unsure that a change to a longer cycle would in practice be accompanied by a fully proportional increase in budgetary allocations and hence in the volume of IDA replenishments; for these donors a change in the replenishment cycle could carry the risk of a relatively lower volume of IDA resources on a per annum basis." (IDA, Three-Year or Four-Year Replenishment Cycle, Results of Consultation with Donors, January 2001)

"Some donors have indicated that increasing the length of the ADF cycle to four years might lead to lower resources on an annual basis." (AfDB, Independent Evaluation of GC VI, ADF12 and 13 Commitments, September 2015, Management Response)

10

LEVEL OF REPLENISHMENTS

- However this risk that donors downscale their contributions on an annualised basis did not materialise at the AsDF and the EDF when their cycles were extended:

| | Years | Duration | Volume per year | Increase /previous cycle |
|--------|-----------|----------|------------------|--------------------------|
| AsDF 2 | 1976-1978 | 3 years | \$ 0.415 billion | - |
| AsDF 3 | 1979-1982 | 4 years | \$ 0.5 billion | 20% |
| | Years | Duration | Volume per year | Increase /previous cycle |
| EDF 9 | 2003-2007 | 5 years | € 2.76 billion | - |
| EDF 10 | 2008-2013 | 6 years | € 3.78 billion | 37% |
| EDF 11 | 2014-2020 | 7 years | € 4.35 billion | 15% |

- ➔ At this stage there is no evidence or indication that extending the cycle to four years would have a negative effect on the level of replenishments.

11

LEVEL OF REPLENISHMENTS

- A longer replenishment cycle may have a negative effect on the level of IFAD resources if donors who fail to contribute (or contribute little) in a replenishment wait until the next replenishment to restore their contribution to past levels (or above).
- On the other hand, donors who have contributed more than usual in a given replenishment are “locked in” for a longer period.

12

ADEQUACY OF FUNDING

A longer replenishment cycle, e.g., 4 years, might have **positive and negative effects** on the provision of adequate funding for development programmes:

- As shorter funding cycles constitute a challenge to long-term development planning, a longer replenishment cycle would be likely to make it easier to **match funding** with country programmes.
- As IFAD's recipient countries are not allowed to carry over unused allocations from one replenishment cycle to the next, a longer replenishment cycle would allow more time for the countries concerned to explore appropriate venues for the **use of uncommitted funds** by the deadline.
- A longer cycle might increase the **unpredictability of funding** as IFAD's donors are less disciplined in respect of amounts, burden-sharing and timing of contributions than in other institutions (e.g., IDA, AfDF, AsDF). This may increase the possibility of further borrowings.

13

COST EFFICIENCY FOR IFAD

- For IFAD, a 4 year replenishment cycle would entail **fewer replenishment consultation meetings** overall, namely three consultation periods over twelve years, bringing about savings in IFAD's direct costs.
- The direct costs of replenishments could be **further lowered** by reducing the number of consultation meetings **from 4 to 3**, following AfDF's and AsDF examples.

| Cycle | Over 12 Years | No. of Meetings p.a. | Direct costs per replenishment | Total direct costs over 12 years | Savings over 12 years |
|---------|------------------|----------------------|--------------------------------|----------------------------------|-----------------------|
| 3 years | 4 replenishments | 4 | US\$ 1,000,000 | US\$ 4,000,000 | 0% |
| 3 years | 4 replenishments | 3 | US\$ 750,000 | US\$ 3,000,000 | 25% |
| 4 years | 3 replenishments | 4 | US\$ 1,000,000 | US\$ 3,000,000 | 25% |
| 4 years | 3 replenishments | 3 | US\$ 750,000 | US\$ 2,250,000 | 45% |

14

EFFICIENCY FOR MEMBERS

Costs

- For **IFAD Members**, a 4 year replenishment cycle would also entail savings in direct costs.
- ➔ However, as almost all replenishment consultation meetings take place at IFAD's headquarters, such savings would be limited for those members who appoint their Executive Directors as replenishment Deputies.

Budgetary and legislative procedures

- ➔ It is likely that a longer replenishment cycle can be accommodated by donors' budgetary and legislative procedures. **"No issue** was raised with respect to donors' budgetary and legislative procedures. Most donors would have no difficulty of this type in moving to a four-year cycle. **For some, the budgetary and legislative processes are on a yearly cycle while for others, there is flexibility in their internal processes to accommodate a change to a four year cycle.**" (IDA, Three-Year or Four-Year Replenishment Cycle, Results of Consultation with Donors, January 2001)

15

DIALOGUE BETWEEN IFAD & MEMBERS

A longer replenishment cycle could have positive or negative effects on the quality of the dialogue between IFAD and its Members:

- If the MTR meeting continues to be the first meeting of the consultation period, this would result in a **more meaningful MTR**, as the current replenishment would be in its third year of implementation.
- ➔ If the MTR meeting is held as a **stand-alone event** several months prior to the start of the consultation period (i.e., in the second year of implementation), the advantage may not be as great.
- There would be **fewer opportunities** for a **substantial dialogue** between Bank Management and Members.
- **Longer intervals between consultation processes** would provide less frequent occasions to react to new circumstances and policy changes.

16

IMPACT OF OTHER REPLENISHMENTS

IFAD's replenishment consultation usually takes place in the year following the completion of IDA and AfDF's own processes:

| | Replenishment period | | When negotiations took place | Number of meetings |
|-------|----------------------|------------------------|------------------------------|--------------------|
| IFAD | IFAD 10 | 2016 to 2018 | Feb. 2014 to Dec. 2014 | 4 |
| AfDF | AfDF 13 | 2014 to 2016 | Feb. 2013 to Dec. 2013 | 3 |
| AsDF | AsDF 11 | 2013 to 2016 | Sep. 2011 to May 2012 | 3 |
| EDF | EDF 11 | 2014 to 2020 | June 2011 to June 2013 | – |
| GEF | GEF 6 | July 2014 to June 2018 | Apr. 2013 to Apr. 2014 | 4 |
| GFATM | GF4 | 2014 to 2016 | Mar. 2013 to Dec. 2013 | 2 |
| IDA | IDA 17 | July 2014 to June 2017 | Mar. 2013 to Dec. 2013 | 4 |

17

IMPACT OF OTHER REPLENISHMENTS

With a 4 year cycle, IFAD's consultation would no longer follow IDA and AfDF processes. Would that have an impact on IFAD's replenishments?

- Unlike AfDF's replenishments, IFAD's are already de-linked from IDA's.
- "It is an open question to what extent an individual donors' increased contribution in one replenishment may be offset by a smaller allocation to another replenishment – are they "communicating vessels"? Allocation decisions are made based on many different factors, and approaches to how funds are allocated vary across donor governments. While unclear what the implications of a higher or lower replenishment in one institution has on the size of other institutions' replenishments, there is however clearly a "policy diffusion" in terms of issues, by the mere fact that many participants are the same, and that replenishments address issues that are on the current global agenda." (CLER para 41)

18

PRELIMINARY CONCLUSIONS

- ❖ Extending the **length** of the replenishment cycle may not be the only issue to consider.
- ❖ It should be considered in conjunction with a **reduction in the number of consultation meetings**.
- ❖ It could be part of a **broader reform** of the consultation process, including:
 - focusing on **fewer strategic issues**;
 - reducing the **number of commitments**;
 - deciding that there will be **no more than five documents prepared** for each consultation process (including the MTR and the resolution); and
 - using IFAD's **digital platforms more effectively** (and creating new ones if appropriate) to carry out, between replenishment consultations, a substantive dialogue between IFAD Management and Members' capitals.