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Investing in rural people

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

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Ad Hoc Working Group on Governance – Fifth Meeting  
Rome, 12 April 2016

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**For: Information**

## **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".

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

- (iii) Opening the Board sessions to members as observers with a right to speak but without a right to vote could also be considered.
  - (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.