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

Note to Governors

Technical questions:

Cheryl Morden
Secretary of IFAD, a.i.
Office of the Secretary
Tel.: +39 06 5459 2254
e-mail: c.morden@ifad.org

Focal points:

William Skinner
Chief
Governing Bodies Office
Tel.: +39 06 5459 2974
e-mail: gb_office@ifad.org

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For: Information
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. 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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1 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.