



Governing Council

Seventeenth Session
Rome, 26 - 28 January 1994

Agenda Item 11

PRESIDENT'S MEMORANDUM ON A REVIEW OF IFAD'S
RESOURCE REQUIREMENTS AND RELATED GOVERNANCE ISSUES

1. The Consultation on the Fourth Replenishment of IFAD's Resources met in six sessions, between April 1992 and October 1993, but has been unable to conclude negotiations and transmit an appropriate draft resolution on the Replenishment to the Seventeenth Session of the Governing Council for its consideration and adoption. At the end of the Sixth Session, members of all three Categories asked the President to continue his efforts to bring the Fourth Replenishment negotiations to a successful conclusion. As a result of the President's consultations with Members, it became apparent that it was not possible to reach agreement, at a reasonable level, on the Fourth Replenishment within the context of IFAD's current financing framework.

2. The negotiations on the various replenishments of IFAD's resources have been difficult and time-consuming. However, an assured and predictable financial basis, at an appropriate level, is critical to the continuity of IFAD's operations in the future and to the provision of appropriate annual levels of committable resources. It is therefore desirable that the Fourth and future Replenishment negotiations be undertaken in an atmosphere in which they can be completed more quickly and easily. Such an atmosphere should also provide predictability over time for a substantially higher level of replenishment than is at present being attained. In order to achieve this, many Members feel it necessary that, in addition to its financial basis, IFAD's governance should also be addressed. As it was not within its mandate to deal with issues other than those directly related to the Fourth Replenishment of IFAD's Resources, the Consultation was of the opinion that the Governing Council, at its forthcoming Seventeenth Session, may wish to review IFAD's resource requirements and some issues related to its governance that arose during the Consultation's Sixth Session. For this purpose, it would be desirable to agree on a broad set of principles upon which these issues could be reviewed. These principles are outlined under four headings: (a) the modalities of financing IFAD's operations; (b) the voting rights of Member States; (c) the composition of the Executive Board; and (d) programme and operational matters.

3. In the light of the recommendations of the Consultation, the Governing Council may wish to examine the issues set out in paragraph 2 (a) to (d) above. To that effect, the Governing Council may wish to establish appropriate bodies of the Fund and authorize them to consider such issues and submit recommendations thereon for the decision of the Governing Council. In doing so, particular attention must be paid to the desirability of the Fund continuing as a responsibility shared equally between donor and recipient countries as well as that of considering a more direct link between the level of contributions paid by Members, each Member's voting power and the membership of the Executive Board.

4. The appropriate body of the Fund to deal with the issues referred to in paragraph 2 (a), (b) and (c) above could be a Special Committee of the Governing Council consisting of [12 or 18] Members, with [4 or 6] from each of Categories I, II and III. Given the critical nature of the issues, Members should seek to have their participation in the Committee at the highest possible level. The Special Committee should be chaired by the President of IFAD and the Fund should provide the necessary support for the deliberations of the Special Committee. The Special Committee should be requested to complete its work sufficiently in time so as to enable it to submit its report through the Executive Board to the Eighteenth Session of the Governing Council in January 1995. The Executive Board, in transmitting the report to the Governing Council, shall propose such amendments to the Agreement Establishing IFAD as it deems necessary, for adoption by the Governing Council at the same session. A draft resolution establishing the Special Committee, together with its composition and terms of reference, is presented in Annex I for the consideration of and adoption by the Governing Council at its Seventeenth Session. At the same time, the Executive Board could be charged with considering the issue set out in paragraph 2 (d) above. In carrying out that responsibility, the Executive Board may decide to establish an appropriate Ad hoc Committee of the Board. The Executive Board, after reviewing the report of the Ad hoc Committee, would submit its recommendations on it, including any amendments to the Agreement Establishing IFAD as may emanate from the review of the Ad hoc Committee's report, to the Governing Council at its Eighteenth Session for decision.

5. The key issues which could be examined by the proposed Special Committee of the Governing Council and Ad hoc Committee of the Board are outlined briefly below.

(a) The Modalities of Financing IFAD's Operations

6. The general perception to date has been that the Fund should depend primarily on Members' contributions for its operating resources and that additional contributions would be received regularly through the replenishment process, based on Article 4, Section 3, of the Agreement Establishing IFAD. The level of those contributions along with internally-generated resources would be the amount required to cover loan and grant commitments for a period agreed by the Governing Council. In practice, however, replenishment negotiations have been protracted and complex and the target of achieving an adequate replenishment could not be met.

7. In view of the above, a new framework should be developed for financing IFAD's operations. In doing so, the following considerations should be borne in mind:

- (i) reaching agreement on a minimum annual level, in real terms, of commitments to be made by IFAD for loans and grants;
- (ii) establishing a desirable level of internally-generated resources for IFAD that can contribute appropriately to the desired minimum annual commitment level whilst also assuring sufficient income to cover administrative expenses;
- (iii) reaching an agreement on a basic level of replenishment which, in conjunction with the agreed level of internally-generated resources, will assure the desired minimum level of annual commitments;
- (iv) establishing a basis for determining additional contributions to the basic level of replenishment by Category I and Category II, at levels mutually acceptable to all Members, through the creation of an appropriate incentive framework with the objective of attaining commitment levels higher than the minimum agreed level; and
- (v) expanding mechanisms to provide increased committable resources above those provided by the replenishment process, including the possibility of borrowing from Member Governments to finance operations on ordinary loan terms.

(b) The Voting Rights of Member States

8. At present, the voting rights of Member States are calculated as follows: a total of 1 800 votes are allocated equally among the three Categories of Members: 600 votes per Category. Within each Category, the 600 votes are divided according to formulae established in the Agreement Establishing IFAD. Revisions to voting rights may be warranted in recognition of the evolution which has occurred or may occur in the relevant contribution levels of Categories I and II and of individual Member Countries in all three categories, taking full account of delinquencies in making payment of contributions or in paying drawdowns against promissory notes. Therefore, in making adjustments to the voting rights of Member States, the following issues would need to be addressed:

- (i) recognition, in terms of additional votes, of Members' contributions above a base level;
- (ii) recognition of the important role of developing countries in the governance of IFAD;
- (iii) the possible adjustment of Category membership;
- (iv) recognition of the particular level of individual contributions to IFAD by Member Countries from Category III; and
- (v) the problem of arrears in payments as well as against drawdown calls and the possibility of buying or withdrawing the votes of Members in arrears.

(c) The Composition of the Executive Board

9. There are 18 Executive Director seats and 18 Alternate Director seats on the Executive Board, of which each Category has six Director seats and six Alternate Director seats. In practice, however, only five of Category I's Alternate Director seats are filled because the United States has sufficient votes to form its own constituency and therefore effectively holds a permanent Director seat. Members of the Executive Board are elected periodically at the annual session of the Governing Council for a term of three years. The Alternate Directors may vote only in the absence of the Director. Changes in voting rights may call for changes in the composition of the Executive Board. If this occurs, the following issues will have to be addressed:

- (i) the size of the Executive Board;
- (ii) the distribution of membership within the Executive Board between and within Categories; and
- (iii) the degree to which voting rights/contributions should be a consideration in Executive Board membership.

(d) Programme and Operational Matters

10. Under operational issues, there are a number of interrelated issues which have an impact on resource mobilization and usage. In particular are the questions concerning the supervision of IFAD projects, the relationship with cooperating institutions involved in the supervision process, the potential role for IFAD undertaking supervision of some of its own projects, IFAD's catalytic role in influencing the policies and strategies of recipients and other multilateral and bilateral donors through cofinancing and other financial arrangements as well as through policy dialogue.

11. In addition, during the meetings of the Consultation on the Fourth Replenishment, there was discussion of certain programme issues such as country eligibility and concentration, sectoral and sub-sectoral concentration, emphasis on the least developed countries, and related matters.

12. The Governing Council may therefore wish to request that the Executive Board, through an Ad hoc Committee, review these operational and programme issues, and particularly their relation to the issues which would be considered by the Special Committee of the Governing Council.

THE REVIEW OF IFAD'S RESOURCE REQUIREMENTS
AND RELATED GOVERNANCE ISSUES

Resolution ..XVII

The Review of IFAD's Resource Requirements and Related Governance Issues

The Governing Council of IFAD,

Reaffirming its unanimous support for IFAD and its mandate to fight hunger and alleviate poverty and noting with great satisfaction IFAD's continued progress in discharging effectively that mandate;

Noting with great concern the increased difficulties which IFAD has faced in mobilizing resources for replenishment, particularly for the Fourth Replenishment, which seriously affects IFAD's ability to maintain its operations at an appropriate level;

Bearing in mind Article 4, Section 3, of the Agreement Establishing IFAD, which provides that, in order to assure continuity in IFAD's operations, the Governing Council shall periodically review the adequacy of the resources available to IFAD;

Having considered the Report of the Consultation on the Fourth Replenishment of IFAD's Resources, contained in document GC 17/L.6;

Having considered the President's Memorandum on a Review of IFAD's Resource Requirements and Related Governance Issues, contained in document GC 17/L.7;

Taking into account the views expressed by Member States at the Seventeenth Session of the Governing Council on IFAD's resource requirements and related governance issues;

Decides that:

1. A Special Committee of the Governing Council (hereinafter referred to as "the Special Committee") shall be established, consisting of a maximum of [four/six] Members from each of Categories I, II and III, respectively, and be chaired by the President of IFAD.
2. The Terms of Reference of the Special Committee shall be as outlined in the attachment to this Resolution (Attachment).
3. The Special Committee shall transmit its report and recommendations (hereinafter referred to as "the Report") to the Governing Council at its Eighteenth Session, through the Executive Board.
4. Based on its deliberations, the Executive Board, in transmitting the Report, shall also submit proposals for the amendment, if any, of the Agreement Establishing IFAD to the Governing Council.

5. The Special Committee shall hold its first session as promptly as possible and thereafter shall meet as frequently as may be necessary to complete its work.
6. The President of IFAD shall, inter alia, decide the dates and venue of each session of the Special Committee.
7. The President of IFAD be requested to keep the Executive Board informed on the progress of the deliberations of the Special Committee.
8. The President of IFAD be requested to provide such assistance to the Special Committee as may be necessary for the effective and efficient discharge of its functions.
9. The Executive Board be requested to review the programme and operational matters specified in paragraphs 10 and 11 of document GC 17/L.7. To that end, the Executive Board may decide to establish an appropriate Ad hoc Committee of the Board and, after reviewing that Ad hoc Committee's report, shall submit its recommendations thereon, including such amendments to the Agreement Establishing IFAD as it may deem necessary, to the Eighteenth Session of the Governing Council.
10. The Executive Board shall, in proposing amendments to the Agreement Establishing IFAD in accordance with paragraphs 4 and 9 of this Resolution, consolidate such proposed amendments into a single document for submission to the Governing Council at its Eighteenth Session.

Upon adopting Resolution ../XVII, the Governing Council decided to appoint the following Members to the Special Committee:

Composition of the Special Committee of the Governing Council on the Review of IFAD's Resource Requirements and Related Governance Issues

Category I

{4 or 6 Members}

Category II

{4 or 6 Members}

Category III

{4 or 6 Members}

ATTACHMENT

TERMS OF REFERENCE OF THE SPECIAL COMMITTEE OF THE
GOVERNING COUNCIL ON THE REVIEW OF IFAD'S RESOURCE
REQUIREMENTS AND RELATED GOVERNANCE ISSUES

1. Under the chairmanship of the President of IFAD, the Special Committee shall review the following issues relating to IFAD's resource requirements and related governance issues:

- (a) the modalities of financing IFAD's operations;
- (b) the voting rights of Member States; and
- (c) the composition of the Executive Board.

2. The Special Committee shall examine the current modalities of financing IFAD's operations and suggest, if necessary, a new framework therefor, giving due consideration to the following:

- (a) reaching agreement on a minimum annual level, in real terms, of commitments to be made by IFAD for loans and grants;
- (b) establishing a desirable level of internally-generated resources for IFAD that can contribute appropriately to the desired minimum annual commitment level whilst also assuring sufficient income to cover administrative expenses;
- (c) reaching an agreement on a basic level of replenishment which, in conjunction with the agreed level of internally-generated resources, will assure the desired minimum level of annual commitments;
- (d) establishing a basis for determining additional contributions to the basic level of replenishment by Category I and Category II, at levels mutually acceptable to all Members, through the creation of an appropriate incentive framework with the objective of attaining commitment levels higher than the minimum agreed level; and
- (e) expanding mechanisms to provide increased committable resources above those provided by the replenishment process, including the possibility of borrowing from Member Governments to finance operations on ordinary loan terms.

3. In reviewing the voting rights of Member States, the Special Committee shall address the following questions:

- (a) recognition, in terms of additional votes, of Members' contributions above a base level;
- (b) recognition of the important role of developing countries in the governance of IFAD;

- (c) the possible adjustment of Category membership;
- (d) recognition of the particular level of individual contributions to IFAD by Member Countries from Category III; and
- (e) the problem of arrears in payments as well as against drawdown calls and the possibility of buying or withdrawing the votes of Members in arrears.

4. On the question of the composition of the Executive Board, the Special Committee shall, in particular, examine the following aspects:

- (a) the size of the Executive Board;
- (b) the distribution of membership within the Executive Board between and within Categories; and
- (c) the degree to which voting rights/contributions should be a consideration in Executive Board membership.

5. In carrying out its work, the Special Committee shall give due attention to those issues which have a bearing on the Fourth Replenishment of IFAD's Resources with a view to formulating its recommendations thereon for consideration by the Governing Council at its Eighteenth Session.

