



Governing Council  
Eighteenth Session  
Rome, 25 - 27 January 1995  
Agenda Item 10(a)

**REPORT AND RECOMMENDATIONS OF THE SPECIAL COMMITTEE ON  
IFAD'S RESOURCE REQUIREMENTS AND RELATED GOVERNANCE ISSUES**

The Special Committee on IFAD's Resource Requirements and Related Governance Issues held its final session from 11 to 12 October 1994. Resolution 80/XVII provides that the report and recommendations of the Special Committee shall be transmitted to the Eighteenth Session of the Governing Council through the Executive Board. The Executive Board, at its Fifty-Third Session on 5 - 6 December 1994, reviewed the report and agreed to transmit it to the Governing Council. Accordingly, the report of the Special Committee is presented as an attachment to this document.



ATTACHMENT

REPORT OF THE SPECIAL COMMITTEE ON  
IFAD'S RESOURCE REQUIREMENTS AND RELATED GOVERNANCE ISSUES

1. At its Seventeenth Session in January 1994, the Governing Council of IFAD, through Resolution 80/XVII, established the Special Committee on IFAD's Resource Requirements and Related Governance Issues (henceforth "the Special Committee").
2. The Special Committee was requested to review the following issues: (a) the modalities of financing IFAD's operations; (b) the voting rights of Member States; and (c) the composition of the Executive Board.
3. In carrying out its work, the Special Committee was to keep in mind the final objective to recommend the necessary changes so as to enable IFAD to reach a successful Fourth Replenishment and to facilitate future replenishments.
4. The Special Committee met in five sessions: 28 January, 17-18 March, 9-10 May, 20-22 June 1994 and 11-12 October 1994, to discuss all relevant issues related to the Fund's financing and governance.
5. To guide its work, the Special Committee agreed on a set of working principles:
  - (i) there should be a link between individual contributions and voting rights so as to provide an incentive to all Member Countries to increase their contributions to IFAD's resources;
  - (ii) the total votes should be divided into two parts: membership votes, which would be distributed equally among Members, irrespective of the level of their contributions; and contribution votes, which would be distributed in accordance with cumulative payment of contributions;
  - (iii) all Member Countries of IFAD should have equal access to both membership and contribution votes;
  - (iv) the important role of developing countries in the governance of IFAD should be preserved. This is to be done by dividing the total votes between membership and contribution votes in such a way as to ensure that those Members of the current Category III always receive one-third of the total votes as membership votes;
  - (v) to create sufficient incentive, it was agreed by the Members that there has to be a balance between the weight given to past and future contributions;
  - (vi) the application of these principles would produce outcomes that are category or country group neutral; and

- (vii) on the question of arrears in making payments against contributions, for the purpose of calculating voting rights, Members' contributions should continue to be adjusted to take into account the non-payment of contributions and non-payment against drawdown calls of the promissory notes.

6. Regarding (a) the modalities of financing IFAD's operations, three related issues were discussed, the first on the desired annual commitment level. This issue was reviewed and discussed by the Special Committee Members. Basically, Members all agreed that it would be desirable to increase the level of commitments but that this issue was closely linked to the issue of replenishment, as well as the Fund's liquidity policies. The Special Committee did not reach a conclusion on a specific level of commitments since it was agreed that the appropriate commitment level should be decided upon completion of the Fourth Replenishment.

7. The liquidity policy of IFAD is a complex and difficult subject. It was noted that a Working Group of the Executive Board had examined the question of liquidity and its recommendations were endorsed by the Board. Many Member Countries from all three Categories expressed their support for these recommendations and their agreement to continue with the present liquidity policy. However, several other Member Countries expressed their strong concern at the continuing growth of liquidity levels and the necessity to stabilize or reduce them.

8. Members recognized the linkages among liquidity levels, commitment levels and future replenishments with a trade-off in terms of higher replenishment levels to compensate for lower liquidity in order to maintain existing commitment levels. After careful consideration the Special Committee reached a consensus on a policy of stabilizing liquidity levels over the next three-year period and reducing them over the longer term.

9. Accordingly, with respect to the next three-year period (the Fourth Replenishment period), a policy of no further build-up in nominal terms of the level of IFAD's liquidity, including the Special Programme for Africa, would be established. To operationalize the policy, for the first year a ratio of 65%-35% would be implemented; 65% drawing down on internally generated resources and 35% drawing down on Members' contributions. This ratio would be reviewed annually by the Executive Board and an appropriate revision of the ratio would be made in order to implement the policy of no growth of liquidity. At the time of the Fifth Replenishment, Member Countries would review in more detail how to achieve the long-term policy of a reduction of liquidity, bearing in mind the linkage of liquidity levels to future replenishment levels.

10. The third issue dealt with the level of the Fourth Replenishment. Most countries agreed on the target of USD 600 million as the appropriate level for the Fourth Replenishment. Some Member Countries noted that a higher level of replenishment should be sought and could be attainable. Others were not able to give an indication at this time. Members of all Categories emphasized the partnership between developed and developing countries in providing resources for IFAD and supporting the Fund's work. In the light of this, Members agreed to undertake the necessary preparations to enable the Fourth Replenishment consultations to be convened in October 1994 in such a manner as to allow for a successful outcome to be approved at the Eighteenth Session of the Governing Council in January 1995.

11. On the issue of (b) the voting rights of Member States, specifically the applicable relationship between Members' contributions and voting rights, it was decided that:

- (i) the initial position of all Members' current 1 800 votes would be that all Members receive five membership votes and the remaining votes be distributed according to Members' paid cumulative contribution in convertible currencies; and
- (ii) for future replenishments, beginning with the Fourth Replenishment, additional votes will be created at the rate of 100 votes for each USD 158 million of replenishment or a fraction thereof. The total additional votes created will be divided between membership and contribution votes in such a way as to ensure that those Members of the current Category III receive one-third of total votes as membership votes with each membership vote being equal for all countries.

12. Regarding (c) the composition of the Executive Board, the Special Committee agreed upon the following principles:

- (a) priority attention should be given to appropriate and adequate regional and sub-regional representation;
- (b) the structure of membership of the Executive Board should reflect the role of developing countries in the governance of IFAD;
- (c) Members' cumulative paid contributions should be given due weight; and
- (d) Members in contribution payment arrears against which provisions are made should not be eligible for Executive Board membership or should cease to exercise the privilege of Executive Board membership.

13. It was agreed that the present number of 18 members and up to 18 alternates in the Executive Board are retained. Specifically, it was also agreed that, in accordance with the principles which have been agreed upon and which are reflected in paragraph 5 above, countries from the present Category I will share eight seats, countries from the present Category II will share four seats and countries from present Category III will share six seats on the Executive Board. It was further agreed that the distribution of seats in the Board could be reviewed in the future as deemed appropriate.

14. On the issue of the category structure of IFAD, the Special Committee had extensive and constructive deliberations starting from its first session in January. The Committee explored the possibility of maintaining the three-category structure of Membership, in modified form, as well as having a two-category structure of Membership. While it was recognized that each of these possibilities had certain advantages, Members decided that a formal category structure was no longer necessary. However, the Special Committee recommends that the section of the resolution dealing with governance issues would have the following two introductory paragraphs:

"The International Fund for Agricultural Development (IFAD) is an institution unique within the United Nations family, established with the objective of enhancing agricultural development, with the focus on the food sector and the activities of poor farmers, and as a special partnership in which its members agreed to join together to raise funds and share in the governance arrangements. The Agreement Establishing IFAD accordingly organized

membership into three Categories in order to reflect this special character of the institution, in particular the contribution of oil producing and exporting countries and other developing countries to IFAD's financing.

The concept of partnership, and the idea of IFAD as a combined endeavour among industrialized countries, other donors and recipients for the joint determination of how best to achieve IFAD's objectives, for collective decision taking on all matters pertaining to the operations of the organization and for the purposes of fund raising, will continue under the new arrangements. The membership is not codified into formal Categories in the revised Agreement itself, reflecting the need for flexibility, in that country circumstances can be expected to change and evolve over time. However, the membership continues to work through groupings of like-minded countries for decisions on policy and operational matters, for the purpose of consultation over financial affairs including fund raising, and for other reasons related to the governance of IFAD such as membership of governing bodies and committees, thus conserving the inter-relationships that are a special feature of the joint character of IFAD. The formation of such groups will be further negotiated and decided by the various member countries themselves."

