Options for a Comprehensive Framework for Enhancing the Governance Structure of ADF

Discussion Paper

ADF-11 Replenishment : Third Consultation
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AFRICAN DEVELOPMENT FUND

Executive Summary

This paper outlines possible options for consideration in revising the ADF Governance structures consistent with the demands and corporate interests of the Fund stakeholders. It reviews the current governance structure and highlights major concerns which are related to voting rights, representation and institutional arrangements. It also reviews the operating models of other international financial institutions.

It proposes several guiding principles by which to revise the Fund's governance structures, including legal and other implications. It is hoped that these principles will help inform ADF Deputies as they consider governance reforms during the ADF-11 Replenishment meetings, with the view of facilitating internal consultations prior to submission of the final proposals to the ADF governing bodies.

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1. Introduction

Context

1.1 Following the admission of South Africa as the first regional State participant[1] of the African Development Fund (ADF), ADF governing bodies have been calling for measures to revise the ADF governance structures. These calls for reform are meant to address a number of issues and concerns that have been voiced by the Fund's various stakeholders. Specifically, proposed changes include better (more direct) representation and "voice" for regional member countries (RMCs), improved resources and delivery for the ADF and its beneficiaries, and a more concerted effort to avoid the diluting of voting powers, among others.

1.2 To address these issues, the Board of Governors adopted a number of measures, including the 2002 passage of an amendment to the ADF Agreement concerning interim arrangements for RMC participation in the Fund. Also in 2002, the Board of Directors commissioned an independent study on the ADF's governance structure. This report proposed several governance revisions to address voting rights, representation, and institutional issues.[2] The Board of Directors did not, however, reach a consensus on these proposals, and the recommendations were not implemented. In addition, the Board of Directors was unable to approve other suggestions put forward to enhance governance structures by a specific constituency of State participants.

1.3 ADF deputies have also considered the issue of governance structures in the context of the replenishment process. At the conclusion of the ADF-10 Replenishment negotiations in 2004, participants discussed the Status Report on the review of the Fund's governance structure.[3] They specifically noted that the existing arrangements approved by the Board of Governors were only an interim solution, and that a permanent solution to the issues of voting rights and participation of beneficiary countries in the ADF replenishment process would have to be found. They called on both the Fund and State participants to continue their efforts to find a permanent solution, and committed to reviewing progress on the matter at the ADF-10 mid-term review.

Objectives of the Paper

1.4 This paper examines the basic challenges relating to the ADF governance structure, and suggests options for addressing the concerns of Fund stakeholders. The paper is rooted in the first and second ADF-11 Replenishment meetings, when Deputies requested that Management review ADF governance issues and then submit proposals for further discussion. Specifically, the paper will propose several guiding principles by which to revise the Fund's governance structures, including legal and other implications. It is hoped that these principles will help inform ADF Deputies as they consider governance reforms during the ADF-11 Replenishment meetings, with the view of facilitating internal consultations prior to submission of the final proposals to the ADF governing bodies.

1.5 This paper is presented in 5 sections. Following this introduction, section 2 examines the existing Fund governance structures, as well as major concerns with the status-quo. Section 3 highlights the operating models at sister institutions. Section 4 presents the guiding principles for governance reforms, and suggests some possible options for consideration in

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[1] As defined in Article 1 of the ADF Agreement- *Participant* means the Bank and any State which shall become a party to the ADF Agreement. *State participant* shall mean a participant other than the Bank.
[2] *Study on the Governance Structure the African Development Fund, Final Report, May, 2002*
[3] *Report on the Tenth General Replenishment of the resources of the African Development Fund (ADF-X)*

revising the Fund structures. Section 5 closes with conclusions and the next steps.

2. Existing Governance Structures and Major Concerns

ADF Governance Structures

2.1 *Basic Structure:* The current formal governance structure of the ADF consists of a Board of Governors, a Board of Directors, and a President. The ADF has no staff of its own but utilizes the offices, staff, organization, services, and facilities of the Bank to carry out its functions.

2.2 *Policy making organs and relationships*: The highest policy-making organ of the ADF is the ADF Board of Governors. The Governors of the ADF are (i) ex-officio Governors of the ADB and (ii) those appointed by State Participants who are not members of the Bank.[4] The Board of Directors reports to the Board of Governors. The President of the Bank is ex-officio the President of the ADF, as well as Chairperson of the Board of Directors. The ADF Board of Directors is composed of 12 Directors, six appointed by the Bank and six selected by State participants.

2.3 *Voting rights and representation*: Voting rights are equally divided between the ADB and the member countries of the ADF: 1,000 votes for the ADB irrespective of its financial contribution, and 1000 votes for the participant countries proportionate to their respective financial contribution. In accordance with Article 29 of the ADF Agreement, each Governor of the Fund who is a Governor of the Bank shall have and shall be entitled to cast such proportionate share of the Bank's votes as shall have been notified by the President of the Bank. Governors representing State participants shall have a proportionate share of the aggregate votes of the State participants based on the subscriptions of such participants. On the Board of Directors, State participants bestow their votes to the Executive Directors that they select to represent them. A Director representing more than one State participant may cast votes separately according to the needs of the States he/she represents. The Bank designates 6 Directors from the 12 RMC Executive Directors on the Board, on a rotational basis. Each Director designated by the Bank is "allocated" votes as set forth in the notification of their designation by the President of the ADB as Directors. Each Director representing the Bank must cast his/her votes "as a unit,"[5] normally taking the Bank's position in concert with other Directors appointed by the Bank. This is in contrast to Directors of State participants who may cast separately the votes of the States represented. Both Board of Governors and Board of Directors decisions are decided by a 75% majority of the total voting power of the Participants (both ADB and State participants).[6]

Major Concerns with Fund Structures:

2.4 The major concerns with the existing governance structures have centered on voting rights, representation, and institutional arrangements. These are highlighted below.

a. Voting rights

2.5 In the original ADF Agreement, regional members that became State participants did not have voting rights, and regional State participants that became members of the ADB ceased to have votes as State participants. For obvious reasons, this arrangement did not encourage RMCs to become State participants. In 1998, for example, South Africa delayed the completion of formalities for becoming a State participant due to concerns about not having voting rights. This situation was, however, partially addressed when the decision making organs of the ADF approved an amendment to the ADF Agreement in 2002, enabling regional State participants like South Africa to be allocated voting rights.

2.6 The current allocation of voting rights between the Bank and the State participants does not accurately reflect the Bank's financial contribution to the ADF. While the current allocation of votes in two blocks of 1,000 each represents a voting rights equilibrium between the Bank

[4] United Arab Emirates
[5] Article 29 (5) of the ADF Agreement
[6] Ibid

and State participants, the voting rights allocated to the Bank was not a reflection of its financial contribution to the ADF which represented about 5.5% of the total initial contribution.[7]

b. Representation

2.7 There have been concerns that there is no direct representation of RMCs at the ADF Board. Directors representing the Bank on the Board of the ADF are appointed by the Bank on a rotational basis – not directly by RMCs themselves. The requirement for Executive Directors appointed by the Bank to cast their "votes as a unit"[8] also denies the regional Executive Directors a voice at the ADF Board, which has been a source of frustration.

2.8 Concerns have also been expressed about the participation of RMC representatives in the consultative forum for the periodic ADF replenishments. This has become an important issue since this forum, which was originally established as an adjunct of the replenishment process to facilitate the mobilization of donor resources, has increasingly assumed a key policy formulation role.

c. Institutional

2.9 Because the ADF's current institutional and membership structure could limit the resource base available for mobilization by the Fund, governance reforms relating to this matter represent a major concern to some stakeholders. The prospect for an expanded resource base that might result from enlarged or open membership might be seen as additional justification for offering participation to all RMCs. The same argument could presumably apply to participation of non-state actors such as other international institutions.

Responses by Governing Bodies and Fund Management

2.10 The Fund has responded to some of these concerns with various measures, including the following:

- Interim measures concerning voting rights: In response to concerns over voting rights for RMCs becoming State participants, the decision-making organs of the ADF approved an amendment to the ADF Agreement in 2002, at the Annual Meeting held in Ethiopia.[9] The amendment, which was understood to be an interim solution, pending a further review of the ADF Governance structure, allocated to RMCs who become State participants in the ADF up to 1% of the total votes of the State participants. It also established that the only voting rights that may be exercised by State participants are those derived from their participation and not from their representation of the Bank.
- Appointment of independent consultant to review structures: The Fund also commissioned an independent Study on the Governance Structure of the ADF in 2002. The ensuing report made proposals for revising governance structures, notably focusing on voting rights, representation, and institutional issues. The Board did not, however, reach a consensus on the proposals and the recommendations were not implemented.
- Representation of RMCs at ADF replenishment meetings: The Fund now invites selected RMCs (up to 4) to attend replenishment meetings as observers. This arrangement is still considered exclusionary and unsatisfactory by many RMCs, who argue that the lack of effective participation at the resource replenishment meetings prevents beneficiary countries from claiming ownership of any reforms adopted by the Fund. RMCs want their representatives to have enlarged and effective participation in the replenishment consultative meetings of ADF Deputies.
- Participation of regional Executive Directors at replenishment meetings: Effective from the commencement of ADF-11 negotiations, invitation has been extended to all regional and non-regional Executive Directors to attend replenishment negotiations as observers.

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[7] ADF Agreement, Schedule A.2
[8] Executive Directors of State participants who may cast separately the votes of the States s/he represents.
[9] Resolution F/BG/2002/04

3. Operating Models at Sister MDBs

Comparative Review

3.1 A comparative review of governance models for concessionary windows at sister institutions should focus on the following features:

- Relationship with the principal or founding MDBs;
- Voting rights and representation at the Boards, and the relative status of regional/non-regional and borrowing/non-borrowing member countries; and
- Participation at replenishment forums and other “voice” related matters.

3.2 Institutional arrangements for concessional windows at the MDBs range from separate institutions such as ADF and IDA, to special funds integrated into the structure of existing institutions like the AsDF and FSO (the Fund for Special Operations at the Inter-American Bank (IDB). The general trend has been *not* to establish separate institutions for the sole purpose of channeling concessional funds. The basic structure for the concessional windows has a consistent pattern across institutions: a President, an Executive Board, and a Governing Board. Most powers of the Governing Boards are delegated to the executive boards except for the delegation limitations in the constitutive Agreements.

3.3 The establishment of concessional funds at sister MDBs has been rooted in a desire to ensure the availability of resources on appropriate terms for their less credit worthy members, as was the case with the ADF. Unlike the ADF, however, the founding institution’s structural link to the concessional one has without exception *not* been through membership, but through common leadership, i.e. through the chairing of the executive boards by the president of the sponsor institution. The World Bank provides the most relevant example, where IDA was sponsored and supported by the IBRD, but the IBRD is not a member of IDA. The 24 IBRD Executive Directors are ex-officio Executive Directors of IDA. The votes of the Directors held by both borrowing developing and developed country members need to be cast as a unit. Developing (borrowing) member countries hold just under 40% of the voting power. It should also be noted that 2 chairs out of 24 (8.3%) are reserved for sub-Saharan member countries, even though they control less than that amount of the total votes.

3.4 At the Inter American Development Bank (IDB) concessional lending has been carried out through the Fund for Special Operations (FSO), which is not a separate entity but an integral part of the IDB. The governance structure of the FSO is the same as that of the IDB. There are 14 members on the Board of Directors elected by member (or groups of member) states. The IDB Agreement reserves 50.005% of the total voting power to borrowing regional members and at least 30% and 4% to the United States and Canada respectively.

3.5 The Asian Development Fund (AsDF) was established by the AsDB. The AsDF has no separate judicial personality and is administered by the AsDB and there are no particular requirements regarding the approval of operations financed by the AsDF as distinct from the approval of operations financed out of the AsDB’s ordinary resources. The Board of Directors is comprised of 12 members, of which 4 are reserved for non-regional members. Currently regional members (including Japan) hold over 65% of the total voting power. Developing or borrowing member countries hold about 40% of the total voting power. Directors representing both borrowing and developed country members are entitled to cast the number of votes held but they do not need to cast them as unit.

3.6 There are some differences in the voting requirements. At the AsDF, regular business decisions require a simple majority of total voting power, while at IDA the requirement is a majority of the votes cast. For the FSO and ADF, a three-fourths majority is required. Thus, in the ADF case, support from the two major blocks – the ADB and State participants – is needed to pass a given measure. For decision-making in relation to concessional funds, a majority of developed countries (donor countries) rather than of regional (recipient) countries seems to be the general rule. Notwithstanding the importance attached to voting rights, normally decisions are taken by consensus.

3.7 With regard to voice in the replenishment negotiation process, all institutions’ practices are similar to the ADF. Replenishment negotiations are carried out by the Deputies of the organizations with the involvement of the respective Managements. The Managements submit the Deputy's report to the governing organs of the institution. The report included policy recommendations for the approval of the Governing Bodies. In general the policies and conditions included as part of the funding arrangements do not include the views of the recipient countries.

Key Emerging Messages

3.8 The key message arising from the foregoing discussion is that there are a number of similarities and differences in the institutional and governance structures between the concessional funds of different MDBs (see Annex 1). Similarities are seen in the composition of the Governing bodies and decision making organs and leadership of the institutions. On the major differences it is noteworthy to point out, for instance, that, unlike the ADF, the sponsoring institution at the World Bank is not a member of IDA.

3.9 With regards to voting shares, in general, the contributing (developed) country partners or donors hold the majority stake as a group. At the ADF, State participants collectively have 50% of the voting power, although 1% may be allocated to RMCs who become State participants. The other 50% votes are held by the ADB.

3.10 Another common thread is that in all cases, recipient countries do not participate in the replenishment negotiations directly. The sole exception is at the IDB, where the Working Group of the Board of Governors is in charge of negotiating resource increases. This institutional context assures participation of all members in the negotiations. At IDA, as at the ADF, recipient countries participate as observers. Considering the interest of RMCs in changing this situation, the Fund should address this issue.

4. Guiding Principles and Possible Options

Guiding Principles

4.1 Consideration of possible revisions to ADF governance structures should be prefaced by agreement on a few basic principles. Based on discussions to date, the following are suggested as appropriate guiding principles.

- All viable options should be examined;
- Revisions should facilitate direct representation and voice by both donors and beneficiaries, which is seen as broadly equitable;
- Revisions should adequately safeguard the corporate interests of the Fund, including with respect to its capacity to attract adequate resources; and
- Revisions should reduce obstacles to new contributions.

4.2 Revisions to ADF governance structures should be viewed as a consultative and consensus-building process around the emerging proposals.

Possible Options and Implications

4.3 On the basis of the review of the major concerns and the foregoing guiding principles, the possible options for consideration are outlined below, focusing on the issues of voting rights, representation and institutional matters. It should be emphasized that these options are not limited to existing proposals and recommendations.

a. Voting Rights

4.4 Several options have been proposed mainly arising from the 2002 governance study and these are highlighted below:

- Maintaining the interim solution as the permanent solution. The interim solution amended the Fund Agreement to allow allocations to RMCs who become State participants in the

ADF up to 1% of the total votes of the State participants. This option has the advantage of having already been approved by the Board of Governors. A disadvantage of this option is that in the event that contributions exceed the 1% ceiling, this option would discriminate against regional State participants as their further contributions would not carry any voting rights. It has been, however, frequently observed that at current levels, the 1%, in relation to the size or net development resources of the Fund, will not constitute a constraint in the foreseeable future.

- Expanding the voting rights allocated in the interim solution to the regional State participants by an additional 1%, specifically by reducing the Bank's block of votes by the same amount. The advantage of this option was that it would introduce a balance in the reduction of voting rights between the Bank and non-regional State participants, but it would retain the same disadvantage as described in the first option. Furthermore, this option is contrary to the position that the Bank is a participant in the Fund in its own right and not as a trustee of the RMCs. It would also require further amendment to Article 29 (1), (2) and (3) of the Fund Agreement.
- Expanding the voting rights of regional State participants by 2%, without placing a limit on the aggregate voting power of the regional State participants, while reducing the Bank's block of votes in the Fund by the same amount. This option would fully eliminate the element of discrimination of the regional State participants. This option would also require similar amendments to Article 29 of the Fund Agreement as in the second option.

b. Representation

4.5 With regard to the issue of representation, the 2002 governance study made the following proposals:

- Allocate the ADB's votes in the ADF to the six Directors appointed by the Bank, but make them proportional to the shares of the groups of regional members that are not State participants;
- Increase the size of the ADF Board of Directors to 18, so that all of the 12 Regional Directors on the Bank's Board of Directors would have a seat on the ADF Board. The constituency of State participants, made similar proposals as part of further suggestions to enhance the ADF's governance structure. The proposal also introduced the notion of allocating participation shares and partnership shares to RMCs that become participants on the basis of their contribution to the ADF.

4.6 Both of these options will boost representation of the Bank's RMCs. Adopting item (i) would not require an amendment to the Agreement establishing the Fund, while implementing item (ii) would require an amendment to Article 27 of the ADF Agreement.

4.7 Concerning representation of RMCs at ADF Replenishment meetings, a number of options can be considered in achieving an arrangement acceptable to all parties. These include:

- Changing the current "observer" status of the four beneficiary country representatives to "participant" status in order to advance the interests of recipient countries.
- Adopt the above suggestion while at the same time increasing the number of representatives to six, which would enable the inclusion of all the countries that are members of the ADF Board that hold the seats on behalf of the Bank at any material time.
- Extend participation to all the countries with representatives on the Board of Directors of the ADB at every point in time.

c. Institutional

4.8 The options advocated by the governance study and other stakeholders include the following:

- Revise ADF structures to open participation to all RMCs, regardless of whether they are donors or not. Under this option, whether the Bank remains a participant in the Fund or not, non-contributing regional states should be allocated a percentage of voting rights in the Fund. If the Bank remains an ADF participant, the proposal suggested that it should have voting rights proportional to its actual subscription to the Fund, which as indicated in paragraph 2.6, is much less than its voting powers. This option had the advantage of treating equally each potential class of participants. This could only be implemented at the expense of the Bank's existing voting rights in the Fund. It needs to be noted that if the Bank cedes all its voting shares to RMCs and ceases to be a participant, such withdrawal of the Bank from the ADF would constitute a termination of the operations by the Fund under Article 40 of the Fund Agreement.[10] This justifies the need for the Bank to maintain participation even at the reduced level.

- Opening up participation to non-state entities, including other international financial organizations, private foundations, global funds, and other such agencies involved in development activities in Africa. Advocates of this proposal point to the expanded resource base that this change would entail as the main justification. Other advantages cited are increased harmonization of assistance at the country level, if the resources of these entities, which are otherwise committed in parallel, are instead channeled through the Fund. There is also a precedent, such as the European Bank for Reconstruction and Development (EBRD) where the European Investment Bank (EIB) is a member of the EBRD.
- Creation of a new concessional window. This proposal advocates the establishment of a new window to provide resources at concessional or similar terms to those provided by the ADF. It would do so in parallel to the ADF, and with its initial funding constituted from the ADB's net income. Contributions from regional member donors and other institutions would follow.[11] This warrants careful consideration as the tendency in most MDBs has been to avoid creating new institutions but rather to consolidate existing ones. At the IBRD, for example, it was proposed, for efficiency's sake, to merge the IFC and MIGA into the IBRD. The resulting institution would administer IDA as a restructured trust fund. These proposals were not pursued, but deserve mention.

4.9 There is evidently considerable support for proposals to open up participation. At the conclusion of the ADF-10 Replenishment negotiations, for example, participants "urged Management to continue discussions with countries that had previously expressed an interest in joining the Bank Group, *as well as others*, to enlarge membership in the Fund." The "other groups" referred to could be interpreted to include non-state entities.

Specific Options Recommended

4.10 On the basis of the discussions of the various options and in line with the guiding principles, Management wishes to advance the following proposals for consideration by the Deputies in deciding the actions to be implemented in revising the Governance Structures:

a. Adopting the Models at IDA and AsDF

4.11 As indicated earlier, at both IDA and AsDF, the IBRD and AsDB respectively are not members of the concessional financing arms and their contributions do not carry any voting rights in the decision-making organs of those institutions. Voting rights are distributed among the members of the two institutions, who include borrowing regional member countries. This is a major distinguishing feature from the ADF governance structures, where the Bank is a participant (member) whose contributions carry voting rights.

4.12 A key advantage of the IDA and AsDF models is that the absence of the sponsor or principal institutions as members has given opportunity to the developing member countries to have larger direct representation. At both IDA and AsDF, developing or borrower member countries exercise proportionately larger shares of the voting rights than their financial contributions can possibly allow (45% at AsDF and 40% at IDA). It is also worth noting, as mentioned earlier that at IDA, two Board chairs out of 24 (8.3%) are reserved for sub-Saharan members, even though they control less than that amount of the total votes, effectively

[10] Article 40 of the Fund Agreement states that withdrawal of the Bank or all the State participants shall constitute a termination of the operations of the Fund.
[11] This proposal was mooted by some regional Executive Directors during the deliberations of the Board document on ADB Net Income Allocation for 2006

guaranteeing them (marginally) higher direct representation at the IDA Board.[12]

4.13 Adopting the IDA model at ADF would, however, require that the Bank cedes all its voting shares to State participants or to countries who may become State participants. The ADF Agreement would have to be amended significantly to delete specific provisions allocating voting rights to the Bank. Adopting the AsDF model would entail reconverting the ADF to its original status of a Special Fund of the Bank, similar to the Nigeria Trust Fund. In legal terms, the ADF would be "merged" into the Bank and cease to be a separate legal entity. If voting rights are predicated on financial contributions, to the extent that the regional State participants are unable, financially, to increase their stake in the ADF, they could be significantly disenfranchised from effective participation in the Fund.

4.14 While this option may have the advantages of equality of treatment with regard to voting rights, it can be achieved only at the expense of the ADB's membership in the ADF (IDA model) or the ADF losing its separate legal status (AsDF model). The IDA model also would need extensive amendments to the ADF Agreement. Most importantly as stated earlier, any withdrawal of the ADB's membership from the Fund would constitute a termination of operations event under Article 40 of the ADF Agreement.

b. Maintaining Current Arrangements in Voting Rights

4.15 This option calls for maintaining the 50-50 voting power arrangement between the Bank and the State participants, and to a large extent represents the compromise option to earlier proposals and modulates certain disadvantages of the models discussed in (i) above. The 50% allocated by Article 29(1) of the ADF Agreement to the Bank should subsequently be divided among RMCs, after allocating to the Bank voting power commensurate to the level of its current subscription in the ADF.[13] This is to avoid the termination event in Article 40 of the ADF Agreement. The excess votes (above the threshold of the Bank's reduced voting power) would be allocated to RMCs as participation shares or partnership shares, as proposed by one of the constituencies of State participants. The balance of 50% of the voting power would continue to be allocated exclusively among Non-regional State participants. This would avoid extensive amendments of the ADF Agreement, whilst preserving the partnership concept which underpinned the establishment of the ADF.

4.16 This option also calls for the following complementary measures to be implemented concurrently:

- There should be no change in the structure of the ADF Board of Governors, given that all the Governors of the Bank are ex-officio Governors of the Fund and their voting power in the ADF is determined proportionately in relation to their shareholding in the Bank.
- The ADF Board of Directors should be enlarged and the number of Executive Directors representing regional members increased from six (6) to twelve (12). Membership on both Boards of Directors would thereby be aligned. The same 18 Executive Directors that are elected to serve on the Board of Directors of the Bank would be selected to serve on the ADF Board of Directors.
- RMCs would be invited to fully participate in replenishment negotiations and the RMC representatives would be determined in relation to the composition of the Board of Directors. Although 4 representatives of beneficiary countries are invited to attend the meetings, their participation is at the individual level and their views do not reflect the consensus of the rest of the RMCs, which could otherwise be secured with broader participation.

4.17 The proposals outlined in item (ii) above will most adequately respond to the specific concerns about voting rights, representation and voice, and pave the way for further institutional reforms. Furthermore, the measures proposed call for minimum amendments to the ADF Agreement.

[12] It is noteworthy that Sub-Saharan African members have requested for an increase in Board representation at IDA.
[13] As of 30 June 2007, the Bank's total subscriptions in ADF (excluding annual transfers from net income) was USD 111 million in relation to total subscriptions of USD 15 billion. The Bank's voting power computed on the basis of its total subscriptions would be 0.792% leaving the balance of 49.208% for allocation to RMCs as participation or partnership shares.

5. Conclusion and Next Steps

5.1 This note has outlined the main issues, the guiding principles and proposals for a comprehensive framework for the review of the ADF Governance structures to respond to the concerns of various stakeholders. Management has also advanced proposals relating to the specific concerns about voting rights, representation and voice for consideration by the Deputies,

5.2 Deputies are invited to consider and provide guidance on the foregoing principles and proposals for revisions to the Fund governance structures, on the basis of which Management will make final proposals to the ADF decision-making organs.

5.3 In particular, Deputies are requested to provide guidance on the following:

(i) Do the issues raised in this note reflect the expectations of the Deputies in addressing concerns on the ADF governance structure?
(ii) Are the guiding principles and options proposed for consideration consistent with the corporate interests of all the stakeholders?
(iii) Do the proposed options constitute sufficient measures in the quest to find a permanent solution to the issues of voting rights and representation?
(iv) Finally, do the Participants authorize Management and the Board of Directors to develop these proposals for further internal discussion?

Annex 1: Comparison of Key Governance Features at ADF and Comparator Institutions

	ADF	IDA	AsDF	IDB (FSO)
1. Type and Establishment	Special concessional institution sponsored by the ADB	Special concessional institution sponsored by the IBRD	Special concessional institution sponsored by AsDB	No special concessional arm; implemented as a special fund
2. Relations with principal Institution	ADB is a member of ADF with voting shares	IBRD not a member of IDA does not hold voting shares	AsDB not a member of AsDF; does not hold voting shares	Integral part of IDB
3. Governing Bodies	ADF Board of Governors; Board of Directors; & President	IBRD Board of Governors; Board of Directors; & President	AsDB Board of Governors; Board of Directors; & President	IDB Board of Governors; Board of Directors; & President
4. Membership	Open to regional and non-regional members	Open to developed (donor) and developing countries	Open to regional and non-regional members	Regional members and non-regional countries belonging to IMF
5. Appointment of Executive Directors	By State participants or Groups of State participants and by the ADB	By State participants or Groups of State participants	By State participants or Groups of State participants	By members of IDB or groups of members
6. Number of Executive Directors	12 (ADF Directors selected from the 18 ADB Directors)	24 (IBRD Directors Ex-officio Directors of IDA)	12 (AsDB Directors- Ex-officio Directors of AsDF)	14 (IDB Directors oversee FSO activities as well)
7. Voting Powers	State participants hold 50% and other 50% held by the ADB. Regional members who become Participants hold up to 1% of State Participants voting shares. Votes of ADB Directors cast as a unit	Developing (borrowing) member countries hold under 40% of voting power. Votes cast as a unit	Developing (borrowing) member countries hold 45% of voting power. Votes ***not*** cast a unit.	Developing (borrowing) member countries hold 50% of voting power. Votes cast as a unit
8. Decision Votes	Decisions taken by 75% majority	Normally by simple majority- qualified majority may be required in exceptions	Normally by simple majority of members present	Decisions concerning operations taken by 75% majority
9. Resource contributions by members of founding institution	Non-regional members of ADB have obligation to contribute to ADF. Regional Members have no obligation to contribute	Members of IBRD have no obligation to contribute to IDA	Members of AsDB have no obligation to contribute to AsDF	All members of IDB are obliged to contribute to FSO