



DEVELOPMENT COMMITTEE
(Joint Ministerial Committee
of the
Boards of Governors of the Bank and the Fund
On the
Transfer of Real Resources to Developing Countries)



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**ENHANCING VOICE AND PARTICIPATION OF DEVELOPING AND TRANSITION
COUNTRIES IN THE WORLD BANK GROUP – SPRING 2009 PROGRESS REPORT**

Attached for the April 26, 2009, Development Committee Meeting is a background report entitled “Enhancing Voice and Participation of Developing and Transition Countries in the World Bank Group- Spring 2009 Progress Report,” prepared by the staff of the World Bank.

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**ENHANCING VOICE AND PARTICIPATION OF DEVELOPING AND TRANSITION COUNTRIES
IN THE WORLD BANK GROUP:
SPRING 2009 PROGRESS REPORT**

1. Enhancing voice and participation of developing and transition countries (DTC) in World Bank Group (WBG) governance has drawn the attention of the Development Committee over the years since the 2002 Monterrey Consensus.¹ In October 2008, the Committee reviewed a package of reforms brought forward by the WBG Boards,² and asked the WBG Boards “to take prompt action to implement this agreed first step.”³ This paper reviews progress to date, and lays out the implementation of the next phase.

2. **Board Approval of Implementation Actions.** The WBG Boards in November 2008 took the following actions to implement the package of reforms:⁴

- (a) The Executive Directors of the International Bank for Reconstruction and Development (IBRD, or Bank) approved a draft Resolution for transmittal to the IBRD Board of Governors, proposing: (i) to amend the IBRD Articles of Agreement to increase basic votes to 5.55% of total votes (an effective doubling); (ii) to allocate 7,117 authorized but unallocated shares to sixteen DTC members whose voting power would be reduced by the proposed increase in basic votes; and (iii) to add an additional elected Executive Director, in order for the member countries in Sub-Saharan Africa (SSA) to be represented by three Executive Directors on the Boards for IBRD, the International Development Association (IDA) and the International Finance Corporation (IFC).⁵
- (b) The MIGA Board of Directors approved a draft Resolution for transmittal to the MIGA Council of Governors, proposing to add an additional Director, in order for the SSA member countries to be represented by three Directors on MIGA’s Board.
- (c) The IBRD Executive Directors agreed to complete a major review of IBRD shareholding, as set out in the Development Committee paper and reiterated in the Board paper.
- (d) The IFC Board of Directors agreed to review the implications for IFC, its members and its finances, functions and operations of undertaking Voice reforms and develop proposals by the 2010 Spring Meetings and no later than the 2010 Annual Meetings, with a view to reaching consensus at the following meeting.

¹ “Monterrey Consensus on Financing for Development”, International Conference on Financing for Development, Monterrey, Mexico, March 18-22, 2002.

² “Enhancing Voice and Participation of Developing and Transition Countries in the World Bank Group: Options for Reform,” DC2008-0013, October 12, 2008.

³ Development Committee Communique, October 12, 2008, paragraph 9.

⁴ “Enhancing Voice and Participation of Developing and Transition Countries in the World Bank Group: Implementation of Reforms,” R2008-0244/1 [IDA/R2008-0309/1, IFC/R2008-0331/1, MIGA/R2008-0065/1], December 11, 2008. A summary of the discussion is attached to the Minutes of the November 25, 2008 Board meeting; see M2008-0078 [IDA/M2008-0078, IFC/M2008-0053, MIGA/M2008-0020].

⁵ IBRD Executive Directors serve *ex officio* as Directors for IFC and IDA.

WBG management agreed to take the necessary actions to implement these decisions as well as the Voice-related institutional reforms (internal governance and Board effectiveness reforms under consideration by the Boards; reforms related to staff and management diversity; decentralization; and country ownership).

3. **IBRD Voting Power and Shareholding.** On January 30, 2009, the IBRD Board of Governors adopted Resolution No. 596, containing the package of three proposals outlined in paragraph 2 (a) above, as a first step to enhance the voice and participation of DTC countries. The Resolution was adopted with the affirmative vote of 98.40% of total voting power, with 0.18% in abstention. The proposal to increase basic votes to 5.55% of total votes additionally requires an amendment of the IBRD Articles of Agreement. In accordance with Article VIII(c) of the IBRD Articles of Agreement, the proposed amendment has been transmitted to all members for acceptance, and acceptance by three-fifths of the members having 85% percent of the total voting power is required for the amendment to be effective. As of April 13, 2009, 91 members holding 28.63% of the total voting power have accepted the amendment.

4. The IBRD Board of Governors also approved the proposal to allocate 7,117 authorized but unallocated shares to 16 DTC members whose voting power would be reduced by the proposed increase in basic votes. Subscription to these shares can begin after the above amendment of the IBRD Articles of Agreement has become effective.

5. **IBRD Shareholding Review.** As stated in the Fall 2008 Development Committee Communiqué, the review will consider the evolving weight of all members in the world economy and other Bank specific criteria consistent with the WBG's development mandate, moving over time towards equitable voting power between developed and developing members. Under the package agreed last fall, the Board would develop proposals by the 2010 Spring Meeting and no later than the 2010 Annual Meetings, with a view to reaching consensus on realignment at the following meeting.

6. The initial Work Program for the IBRD Shareholding Review, as agreed by the Bank's Board in November, specified four stages of work to proceed in sequence:

- (a) Reviewing the specific development mandate of the Bank vis-à-vis the Fund and the possible implications for a realignment of IBRD shareholding, and setting out the principles for shareholding at IBRD. (6 months)
- (b) Developing various criteria and options for realignment of IBRD shareholding, considering relative weight in the world economy, members' contributions to the Bank Group mandate, and additional Bank-specific criteria such as GNI and GDP, at market rates and based on PPP, as well as other criteria. (6-12 months)
- (c) Analyzing the implications of how different options for realignment would apply for individual members; developing initial proposals for realignment of shareholding. (6 months)
- (d) Structuring the available mechanisms to facilitate an adjustment of relative shareholding of members, also taking into consideration the Bank's uses

and need for capital; finalizing proposals for realignment of shareholding. (6 months)

7. Under this work plan, the mandate review and shareholding principles would be prepared by 2009 Annual Meetings, followed next by the development of criteria and options for the 2010 Spring Meeting. The review would cover: historical origins and evolution of the different mandates of the Bank and Fund, and history of IBRD capital increases, including the relationship of IBRD shareholding and IMF quotas; and impact on the Bank and Fund mandates in the wake of the global financial crisis and response. The review would be accompanied by preliminary proposals for IBRD shareholding principles and illustrative calculations.

8. However, the global financial situation has changed dramatically since the Work Program was agreed, and the WBG response has also significantly increased expectations for Bank support to members in fulfillment of its development mandate. These changes will need to be factored into the substantive elements of the IBRD Shareholding Review, as noted above, and may affect the timing. Some shareholders have expressed the view that the timetable should be accelerated. The G20 Leaders' Statement in London on April 2, 2009 noted: "We commit to implementing the World Bank reforms agreed in October 2008. We look forward to further recommendations, at the next meetings, on voice and representation reforms on an accelerated timescale, to be agreed by the 2010 Spring Meetings."

9. In the event that shareholders reach a consensus to accelerate the timetable for IBRD shareholding realignment, the Work Program in paragraph 6 can be accelerated, with more frequent points of engagement, along the following lines:

- (a) Review of mandates and shareholding principles (paragraph 7 above).
- (b) Discussion paper on shareholding criteria and options for realignment, including various proposals mentioned in the Fall 2008 Development Committee paper, including assessment of potential for future increases in IBRD capital.
- (c) Preliminary proposals for shareholding realignment.
- (d) Revised proposals for shareholding realignment.

An accelerated Work Program would require an intensive and inclusive consultation process for shareholders, addressing the interface between voice reform and capital needs of the Bank, the dynamic nature of the world economy and strengthening the cooperative and its capacity to serve its members. The Work Program would be informed, as relevant, by developments related to IMF quotas as well as voice-enhancing reforms in other aspects of WBG governance (see Institutional Reforms, below).

10. **Additional Elected Executive Director for Sub-Saharan Africa.** On January 30, 2009, the IBRD Board of Governors approved Resolution No. 596 (see paragraph 2 above), increasing the number of elected Executive Directors to twenty (20) in order for the member countries in Sub-Saharan Africa to be represented by three elected Executive Directors for the next Regular Election of Executive Directors, to be held in conjunction with the 2010 Annual Meetings. The IBRD Board serves *ex officio* as the IFC and IDA Board as well. Also, on January 30, 2009, the MIGA Council of Governors approved Resolution No. 82, with an affirmative vote of 97.24% of total voting power, with 0.36%

abstention, increasing the number of Directors to twenty-five (25) for the next Regular Election of Directors, to be held in conjunction with the 2010 Annual Meetings. Discussions among the SSA Governors are well underway for implementation of these decisions.

11. **Increasing IDA Part II Voting Power.** The first step of Voice reforms encouraged Part II members to take up and pay for their allocated IDA subscriptions. As of end-February 2009, Part II members as a group hold 41.8% of actual IDA voting power, less than the 48.3% that could be achieved if all IDA members took up all their allocated subscriptions.⁶ The current Part II voting power shows an increase of 0.7% since October 2008, reflecting in part action by IDA Part II members to subscribe to outstanding subscriptions.⁷

12. The remaining aggregate subscription cost involved for all Part II members (including IDA15) is equivalent to \$23.3 million, affecting 97 Part II member countries, covering replenishments dating back to IDA3. For IDA-only countries, the cost would be \$7.8 million.⁸ Potential donor financing, on an exceptional and voluntary basis, was identified and welcomed to assist Part II members with the lowest income level, such as IDA-only countries, to take up their outstanding subscriptions prior to IDA15 (\$7.1 million). A donor contribution for about a third of this total has recently been confirmed from Norway, with an invitation for others to take up the remainder.

13. Management's outreach and efforts are ongoing to encourage all Part II members to take up these subscriptions. In April 2009, management will launch a third follow-up initiative to encourage IDA subscriptions by Part II member countries, with a focus on IDA/IBRD blend countries and IDA graduates, given the expectation that outstanding subscriptions (prior to IDA15) from IDA-only members would eventually be covered by donor grant financing when this becomes available. The total USD equivalent amount of these Part II country subscriptions for blend countries and graduates is \$14.7 million.

14. **IFC Voice Review.** The IFC Voice Review that the IFC Board agreed to undertake will be the first thorough examination of the voice dimensions in the IFC context, and would provide a basis for the consideration of similar Voice reforms at IFC. . The initial Work Program would proceed, sequentially, in four stages:

- (a) Reviewing the specific development mandate and functions of IFC within the World Bank Group and the possible implications for a realignment of IFC shareholding, and setting out the principles for shareholding at IFC.
- (b) Developing various criteria and options for realignment of IFC shareholding, considering all relevant criteria.

⁶ The potential voting power includes all effective IDA replenishments including IDA15 and one third of Multilateral Debt Relief Initiative (MDRI) subscription votes.

⁷ As of October 31, 2008, Part II members held 41.1% of the total actual voting power in IDA. By February 28, 2009, Part II voting power increased by 0.4% due to additional votes allocated to members who subscribed to IDA15. It increased by a further 0.3% due to additional Part II members (Angola, Colombia, Kazakhstan and Trinidad and Tobago) taking up their outstanding IDA subscriptions from earlier replenishments.

⁸ This includes \$0.8 million outstanding subscription to the IDA15 replenishment, which became effective on November 6, 2008. The balance of \$7.1 million includes all replenishments up to IDA14 and one third of the MDRI.

- (c) Analyzing the implications of how different options for realignment, including Basic Votes increases would apply for individual members; developing initial proposals for realignment of shareholding.
- (d) Structuring the available mechanisms to facilitate an adjustment of relative shareholding of members, also taking into consideration the Corporation's uses and need for capital; finalizing proposals for realignment of IFC shareholding.

It was agreed in November 2008 that the review would be completed by Spring 2010, and no later than Fall 2010, with a view to reaching consensus at the following meeting. In the event that the IBRD Shareholding Review is accelerated, shareholders may also wish to accelerate the timing of the IFC Voice Review, so that the IFC can align its timetable as closely as possible to that of IBRD.

15. **Institutional Reforms.** The Voice reform package has also included connections to several areas of institutional reforms, where progress is ongoing.

16. Internal Governance and Board Effectiveness. Work on concrete actions to strengthen internal governance continues in light of recommendations from the COGAM Working Group Report on Internal Governance. A separate report from the Board to the Development Committee presents the outcome of the Board's work on internal governance.⁹ The internal governance review includes the overarching issues of Board effectiveness, oversight and strategy, as a package reflecting a balanced approach to reforming overall Board governance. Some actions are likely to be taken forward now, while others would be pursued within a defined period for the work to be completed by the 2009 Annual Meetings.

17. Workforce Diversity. A diverse and inclusive WBG workforce remains a key priority. The Board's Personnel Committee considered an action plan and progress report from Management on Diversity and Inclusion (D&I) in December 2008.¹⁰ The report highlighted key aspects of the action plan, including leadership and accountability, reform of key staffing processes (recruitment, rotation and on-boarding), learning in support of change, metrics and supporting infrastructure, and new possibilities. The report also discussed IFC's action plan implementation. The WBG sets diversity targets for nationality (Part II), gender (female), nationalities of focus, and race (SSA/CR). The commitment to diversity is reflected in the profile of senior management appointments since FY08, of which 80% have contributed to meeting one or more of these Bank Group diversity objectives.

18. Decentralization. A Discussion Note entitled *Toward a Global Bank* was considered by the Board in October 2008, with respect to the commitment to IDA15 donors to explore different models of decentralization by types of clients and services. Since October 2008, progress has been made on the supporting elements of decentralization, e.g. the Global Recruitment Initiative, a Knowledge and Learning Strategy, methods to monitor progress and measure benefits, and infrastructure elements, among others.

⁹ Review of Internal Governance Conclusions and Proposals, DC2009-0004, April 17, 2009.

¹⁰ *FY07-12 Diversity and Inclusion Strategy: Action Plan Implementation & Progress Report*, PC2008-0017, November 21, 2008.

19. Decentralization has been a key component of IFC's business strategy since FY03. IFC will be presenting an overview of experiences to date to the Board in May 2009.

20. Country Ownership. The Bank's responsiveness to client views is the most salient dimension of voice reform for many members, often the smallest countries. The Bank's Country Strategy has evolved from a prescriptive document to a participatory process, ensuring that the Bank's assistance is based on recipient countries' own development and poverty reduction priorities. The Board's Committee on Development Effectiveness (CODE) is expected to discuss this spring a retrospective review of the Bank's country assistance strategies, another opportunity to focus on the alignment of Bank support with country priorities and ownership.

21. Annual Meetings. The Annual Meetings are traditionally held outside Washington, D.C. every third year, with the selection of host country made roughly three years in advance. The 2009 Meetings will take place in Turkey; a proposal for the 2012 Meetings will be ready for consideration this year. A decision on whether the 2013 Meetings should be held outside Washington should be made in 2010. To that end, it would be timely for COGAM to consider in its FY10 work program a paper by management on options for the format and location of the next meetings. The paper would draw on recent preliminary assessment of budgetary arrangements, as affordability would be an important element.

22. Selection of the President. The Development Committee's Fall 2008 Communiqué stated that there is considerable agreement on the importance of a selection process for the President of the Bank that is merit-based and transparent, with nominations open to all Board members and transparent Board consideration of all candidates..

23. Governance Commission. In October 2008, the Bank's President launched an independent, high-level commission to make recommendations on WBG governance so it can better fulfill its mission of overcoming global poverty and promoting economic growth. The Commission, chaired by former Mexican President Ernesto Zedillo, has been tasked to focus on the modernization of WBG governance so the WBG can operate more dynamically, effectively, efficiently, and legitimately in a transformed global political economy. The twelve members of the Commission have all held or hold senior positions at an international level and are drawn from developing and developed countries.¹¹ The Commission will report at the time of the 2009 Annual Meetings.

24. **Conclusion.** The Voice package agreed last fall contemplated regular reporting by the Board on progress. The next report for the October 2009 Development Committee meeting would provide an opportunity to report on concrete progress by shareholders towards consensus on a second phase of significant WBG voice reforms.

¹¹ The members of the Commission are: Dr. Ernesto Zedillo, Chair; Dr. Arminio Fraga; Dr. Rima Khalaf; Mr. John Kufuor; Mr. Pascal Lamy; Mrs. Sadako Ogata; Mr. John F. W. Rogers; Mr. Herman Wijffels; Mr. Montek Singh Ahluwalia; Baroness Sriti Vadera; Mrs. Heidemarie Wieczorek-Zeul; Dr. Zhou Xiao-chuan.