



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



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**IDA Voting Rights Review:
Report to Governors, Annual Meetings 2021**

Attached is the background document titled “*IDA Voting Rights Review: Report to Governors, Annual Meetings 2021*” prepared by the World Bank Group for the October 15, 2021 Development Committee Meeting.

IDA Voting Rights Review

**Report to Governors
Annual Meetings 2021**

ACRONYMS AND ABBREVIATIONS

COGAM	Committee on Governance and Executive Directors' Administrative Matters
IDA	International Development Association
IFI	International Finance Institutions

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I. INTRODUCTION

1. **The IDA Board, under the leadership of the Committee on Governance and Executive Director’s Administrative Matters (COGAM), has successfully completed its review of IDA’s voting rights framework (the Review) ahead of the 2021 Annual Meetings as requested by Governors.** At the 2019 Annual Meetings, Governors were presented with the *IDA Voting Rights Review: Report to Governors* (the 2019 Report).¹ They endorsed the proposed review of IDA’s voting rights framework, including its scope and Guiding Principles, and requested that the IDA Board of Executive Directors (Directors) lead the Review. At the 2020 Annual Meetings, Governors were provided with *IDA Voting Rights Review: Interim Progress Report to Governors* (the 2020 Report), following which Governors requested Directors to conclude the Review ahead of the 2021 Annual Meetings.²

2. **Our extensive discussions and the readiness of Directors to compromise on starting positions have led to a unanimous consensus to recommend a new framework** that would serve to enhance IDA’s financial strength by incentivizing contributions in future replenishments. If agreed, this would represent the largest and most significant adjustment to IDA’s voting rights framework since IDA03. The simplified framework would ensure fairness amongst potential donors and would protect and enhance Recipient voting power via a Non-Recipient/Recipient membership structure.

3. **This report serves to conclude the Review and update Governors on the work done by the IDA Board of Directors since the 2020 Report and recommends the proposed new IDA voting rights framework.** It provides the background of the Review (Section II), outlines the robust Review work program that the Board has completed over the past year (Section III), provides a description of the proposed voting rights framework (Section IV), and finally, concludes with a specific recommendation to Governors on the potential framework (Section V).

II. BACKGROUND

A. Drivers for Review

4. As noted in both the 2019 and 2020 Reports to the Governors, many Directors felt that a review would be both timely, given that IDA’s current voting rights framework had not been updated since IDA03, and appropriate in light of IDA’s transition to a hybrid financing model and the concerns highlighted by members with the current framework. Specific drivers for the Review were:

- i) Concern that the current framework is overly complicated.
- ii) Concern that the framework is outdated, that it has not evolved to reflect global changes since IDA was created.

¹ See Development Committee communique dated October 19, 2019 and “IDA Voting Rights Review, Report to Governors, Annual Meetings 2019”, IDA/SecM2019-0205, dated August 23, 2019

² See Development Committee communique dated October 16, 2020 and “IDA Voting Rights Review: Interim Progress Report to Governors, Annual Meetings 2020”, IDA/SecM2020-0260, dated September 6, 2020

- iii) Concern that the voting power of recipient countries will continue to decline due to graduation and as a result of donor contributions by Part II members.
- iv) The historic first-time use of IDA's equity to access capital markets has highlighted the importance of safeguarding IDA's equity, and the fiduciary responsibility that countries have over their contributions.
- v) A desire that the framework should do more to enhance and balance incentives for increasing contributions by existing and new donors.

B. Guiding Principles Endorsed by Governors

5. **The use of overarching principles (“Guiding Principles”) that would underpin and set the Review’s direction were identified as key to the Review’s success.** The Guiding Principles defined in the 2019 Report, and endorsed by Governors stated that:

- i) *The voting rights system should incentivize donor contributions to IDA, both for new and existing donors, recognizing that IDA contributions are voluntary.*
- ii) *IDA recipients are key stakeholders, and their voting power shall be protected and, if possible, enhanced.*
- iii) *IDA is a global co-operative; all voices are important to ensure an inclusive and equitable process.*
- iv) *All IDA partners have an interest in IDA’s long-term financial sustainability.*
- v) *Adjustments requiring changes to IDA’s Articles of Agreement will only be considered if there is no alternative option available.*
- vi) *The review shall be de-linked from the IDA19 replenishment and the 2020 Shareholding Review*

6. **A key element of the Review’s roadmap was the identification of clear roles and responsibilities.** Governors asked the Directors to lead the Review with regular updates to IDA Deputies and Borrower Representatives and to complete the Review by the Annual Meeting in 2021.

C. Organizing Framework

7. **A robust organizing framework, consisting of four key building blocks and two phases, was agreed early in the Review.**³ At all times Directors were committed to open discussions, close collaboration, and a willingness to consider various options. They were mindful of the importance of maximizing contributions to IDA, protecting IDA recipient voting power, and ensuring an inclusive and equitable framework.

8. **There are four key building blocks that reflect all possible elements of an IDA voting framework.** Whilst IDA’s current voting rights framework is complex, involving multiple parameters and calculations, it can be broken down into four interrelated key building blocks:

³ The first COGAM meeting was held on January 29, 2020, to discuss “IDA Voting Rights – Deciding on an Approach to the Review”, COGAM/2020-0001, dated January 21, 2020

- a) Membership structure
- b) Voting calculations for the Upper-Tier of the membership structure
- c) Voting calculations for the Lower-Tier of the membership structure
- d) Transition within the membership structure

9. **The Review was conducted in two phases: a deliberative phase covering all four Building Blocks, and a consensus building phase.** The deliberative phase, where Directors explored and discussed options for each Building Block, was completed in December 2020. The consensus building phase, where Directors focused on narrowing down and agreeing on a combination of key decisions to form the new framework, was completed in September 2021.

D. Assessment Criteria for Building Block Options

10. **Assessment criteria were used to help evaluate Building Block options.** Directors used the assessment criteria listed below to help evaluate Building Block options raised in the first phase of the Review, and then again in evaluating and comparing Building Block combinations in the second phase. Used in conjunction with the more high-level Guiding Principles, Directors were able to identify the range of interpretations by members of the Guiding Principles and the potential trade-offs across criteria.

- a) *Protect or Enhance Voice of IDA Recipients - Does the option make it easier for IDA recipients to maintain or increase their voting power?*
- b) *Incentivize donor contributions - Does the option better incentivize donor contributions compared to the current framework?*
- c) *Similar or Same Treatment of Members - Does the option treat similar members equitably?*
- d) *Dynamic and Self-evolving - Is the option better able to reflect the ongoing changes in IDA, including the evolving profiles of IDA's members?*
- e) *Simplifying - Is the option less complex and simpler to understand than the current framework?*

III. STRUCTURE OF DISCUSSIONS

11. **Over the past year, the IDA Board through COGAM has completed a rigorous work program supporting the Review.** After the 2020 Annual Meetings, the first phase of the Review was completed with an analysis of the two remaining Building Blocks (Lower-Tier Voting Calculations and Transitions). The second “consensus building” phase was also completed and consisted of a wide range of approaches to help members narrow down options, increase awareness of each other’s priorities for the new framework, and continue to foster the spirit of compromise.

A. Completion of First Phase – Building Block Deliberations

12. **The Building Block approach broadened and deepened members’ understanding of voting rights issues and helped identify the key decisions that needed to be addressed for any changes to the voting rights framework.**

13. **At the outset of the voting rights discussion, members decided to utilize and adapt the existing voting rights system, where voting power in the upper-tier would be determined by contributions to IDA and lower-tier voting power would be maintained through pre-emptive rights.** The Membership Structure Building Block discussions prior to the 2020 Annual Meetings focused on a two-tier Non-Recipient/Recipient structure, under which voting power is calculated based on a consistent approach for Donors and potential Donors going forward. In addition, the pre-2020 Annual Meeting discussions on the Upper-Tier Building Block focused on exploring alternative pricing approaches for the Non-Recipient tier.

14. **The key challenges to address during this past year were the Recipient lower-tier calculations, particularly the boost to Recipient voting power, the terms of transitioning by Part II members to the Non-Recipient upper-tier, and the appropriate price per vote for Non-Recipient upper-tier members going forward.** In order to complete the deliberative phase of the Review, members explored the two remaining Building Blocks:

- The Lower-Tier Calculations Building Block centered on Recipient voting power. The key to protecting Recipients' voting power is their preemptive rights, which ensures they are allocated sufficient votes to maintain their voting power. A boost to Recipient voting power, aimed at enhancing Recipients' voice and to bring their voting power more in-line with other IFIs, was also discussed.
- The Transition Building Block discussions focused on the transition of Part II member to the Upper-Tier. Directors looked at different transition options for transitioning members (both current Part II Non-Recipients and future IDA graduates). The level of grandfathering of voting power upon transition to the new framework (where transitioning members are able to grandfather their voting power to the new framework) and the duration of any grandfathering are key decisions that any new voting rights system would require. Further, Directors analyzed several combinations of Upper-Tier Building Block options with the Transition Building Block options.

B. Second Phase - Consensus Building

15. **The second phase commenced in January 2021, with Directors focusing their efforts on identifying their preferred combinations, seeking understanding of each other's positions, and narrowing down possible combinations to identify a pathway to consensus.** There were a number of key stages in the consensus building phase which facilitated Directors working together and keeping the Review moving forward in an open, inclusive, and constructive manner.

Development and Sharing of a Simulation Tool

16. **A simulation tool was developed which strengthened members understanding of the trade-offs between options.** The discussions held in the first phase were largely principle driven, where Building Block options were discussed against the Guiding Principles and assessment criteria. In the second phase, to help members narrow down the options, particularly with respect to the potential voting power impact on individual member and member groupings, a simulation tool was provided. The tool allowed members to choose various key decision options and assumptions to project illustrative voting power for each replenishment from IDA20 through to IDA26.

Completion of an All-Board Questionnaire

17. **All Board members completed a questionnaire to identify preferred Building Block combinations.** Once members had familiarized themselves with the simulation tool, each Director was requested to complete a questionnaire to identify their constituency's preferred option for each of the key decisions, along with any areas of flexibility. The goal of the questionnaire was to identify areas of convergence on key decision preferences and aversions, to guide future areas of focus.

18. **The responses to the questionnaire revealed a number of clear preferences by different groups of members.** Mixed constituencies, many of which were a microcosm of the whole Board, found the questionnaire particularly challenging.

19. **The questionnaire also revealed considerable divergence in key areas of the framework, in particular with the new framework's terms and conditions relating to transitions and the Non-Recipient vote pricing going forward.** In response to the divergence, and to maintain the Review's momentum, the COGAM Chair arranged for a number of informal working group discussions.

Participation in Working Groups

20. **The twenty-four Board constituencies⁴ were divided up into four working groups, with representation from the key membership groups (Part I members, Part II Donors, Recipients, and Part II Non-Recipient/Non-Donors) to deepen the understanding of other perspectives and encourage compromise towards consensus building.** The goals of the working groups were to i) reinforce what the Board was trying to collectively achieve, ii) share understanding, and iii) provide advice to COGAM. Comprised of Advisors and Senior Advisors, each working group met multiple times over the course of several weeks to discuss a list of specific topics and complete a series of exercises. Each group produced a working group report that summarized their discussions and highlighted compromise bridge-building combinations that the group believed could form the basis of a consensus.

21. **Two compromise bridge-building combinations were identified by the working groups.** The working groups were a valuable exercise and good progress was made in reinforcing the overall goals of the Review, improving understanding of the perspectives and priorities of different members, and in identifying possible consensus building framework combinations. There were however different views on how any new framework would incentivize donors, as well as the need to have same or similar treatment for Non-Recipients; finally, there were differing views on the need to provide Recipients with a boost to their voting power.

Hosting Bilateral Consultation Meetings

22. **Several rounds of informal bilateral meetings, supported by technical notes, helped build consensus around one combination of key decisions.** At the completion of the working group discussions, the COGAM Chair requested Management to prepare a note with the details of combinations (based on the two broad compromise combinations identified by the working groups,

⁴ The Chair's constituency was not included in order to maintain independence.

along with a recipient boost), that would have the greatest possibility for reaching a consensus. These combinations were used to inform a series of bilateral meetings aimed at identifying a combination that all Directors agreed provides a pathway forward.

23. **A combination that required similar levels of compromise, where everyone was ‘equally unhappy’, emerged as a pathway forward.** Members noted that in addition to adherence to the Review’s Guiding Principles and assessment criteria, three key aspects were needed in order to move forward with the Review and to facilitate a final decision by their capitals:

- All members must have compromised on their preferred positions; so in effect that all members are “equally unhappy”.
- The country’s voting power is not drastically impacted on transition to the new framework, rather, that any decline is gradual.
- The new framework is simple and easily explained.

IV. PROPOSED NEW IDA VOTING RIGHTS FRAMEWORK

24. **The Board’s unwavering commitment to flexibility and consensus building for the betterment of IDA, along with a robust Review process, has resulted in consensus for the recommended new voting rights framework.** IDA members have cooperated to redefine the value proposition of IDA by modernizing its voting rights system, a key governance element, in a simple, inclusive, and sustainable manner. The Guiding Principles have served the Board well as it sought to design a new voting rights framework that reflects the changes in IDA and its members’ landscape, whilst recognizing the importance of Recipients’ voice. Following the Building Block structure used throughout the Review, the key elements of the proposed new framework are outlined below.⁵

Membership Structure

25. **A two-tier, Non-Recipient/Recipient membership structure.** IDA’s voting framework for additional subscriptions will move away from the current Part I/Part II structure, a milestone achievement in its own right.⁶ Instead, the Board supported a fact based, self-evolving, two-tier, Non-Recipient/Recipient membership structure that reflects a member’s IDA status.⁷ The clear delineation of Recipients acknowledges their importance and will allow their voting power to be better protected.

⁵ Illustrative voting power outcomes by member, based on flat contributions and other assumptions, were distributed to the IDA Board as part of the Review’s discussions.

⁶ A Non-Recipient/Recipient membership structure for additional subscriptions will not require any amendment to IDA’s Articles of Agreement. The Articles refer to Part I/Part II membership status with respect to a member’s initial subscriptions upon joining IDA, and serves to determine the terms of payment for the initial subscription; this remains unchanged. The Review has focused on additional subscriptions, for which the Articles allow the terms and conditions to be determined by IDA.

⁷ An IDA Recipient is any country eligible to borrow from IDA, a list of Recipients is maintained in the Bank Directive on Financial Terms and Conditions of Bank Financing. All other IDA members are considered Non-Recipients.

Upper-Tier Vote Calculation

26. **A flat uniform vote price of \$17,670 for all Non-Recipients, where Non-Recipients will receive additional subscription votes based on their replenishment contributions.** With a flat uniform price, IDA donors' contributions would be rewarded equally on an additive basis.⁸ It was noted that the price, as well as the simple and clear approach to additional subscription, would be a firm basis for incentivizing further contributions. As with the calculations under the current framework, Non-Recipients would be agreeing to allocation of voting rights in accordance with the approved voting rights framework. Many Directors noted that a voting system that corresponds to contributions, similar to other market facing financial institutions, is well placed to ensure capital market confidence. Some Part II donors strongly preferred a differentiated pricing approach or a lower uniform price, and their agreement on uniform pricing is a significant compromise in order to reach a consensus.

27. **Past and future contributions are equally valuable.** The support for setting the Non-Recipient vote price at \$17,670, the same level as the current IDA19 vote price, was driven by the need to ensure that past contributions are valued as much as future contributions. Directors noted the importance of avoiding dilution of the voting power associated with the more than \$250 billion in historic contributions to IDA, highlighting that these contributions have built a large portion of IDA's substantial capital base which will continue to support future lending and IDA's market access.

Lower-Tier Voting Calculations and Voting Power

28. **A boost to Recipients' voting power in recognition of the importance of Recipients' voice.** Directors noted that IDA's country-based model is central to IDA and one of the key factors in its effectiveness. There was broad agreement that the combined voting power of Recipients will be enhanced from 16.85% to 20.50%, while a few Directors preferred the more ambitious 25% target.⁹ Starting in IDA20, the 3.65% boost would be applied over four IDA replenishments. The new membership-like votes issued to Recipients on a pro-rata basis would dilute other members' voting power and will therefore effectively be funded on a pro-rata basis by all relevant Non-Recipients.¹⁰

29. **Preemptive Rights would continue to protect Recipients' voting power.** The Non-Recipient/Recipient membership structure serves to ringfence and protect Recipient voting power by transitioning most donors to the upper-tier. Moreover, as with the current framework, any Recipient voting power dilution resulting from Non-Recipient donor contributions would be offset by the allocation of low-cost (\$25) first preemptive right votes. Second pre-emptive rights at the above-mentioned uniform price will offset any contributions from lower-tier members, and any

⁸ Under an additive basis, subscription votes are calculated based on the donor's contribution to the current replenishment and added to any existing votes.

⁹ The 20.5% target reflecting the natural boost Recipients would have received had members transitioned to the new framework without 100% grandfathering.

¹⁰ Eleven recent IDA Graduates: Angola, Armenia, Azerbaijan, Bolivia, Bosnia & Herzegovina, Georgia, India, Moldova, Mongolia, Sri Lanka, Vietnam, fall within the IDA20 waiting period, as described in para. 31, on transition to the new framework. Accordingly, these members are not affected by the Recipient Boost during their respective waiting periods.

contributions to IDA above the payment required for first pre-emptive rights would receive additional subscription votes priced at the uniform price.

Terms of Transition to the New Framework and between Tiers

30. **100% Grandfathering for all transitioning members' voting power under the new framework.** All current Part II members who would transition to the Non-Recipient tier under the new framework would do so with their IDA19 voting power intact. From IDA20 onwards their voting power would be impacted by the Recipient boost (IDA20 through IDA23) and the level of their own and other donor contributions. Full grandfathering would also be provided to future IDA graduates, when they transition to the Non-Recipient tier. Grandfathering was a paramount condition for accepting any new framework for many members, whilst for other members it required a significant compromise. As such, support for 100% Grandfathering was a significant milestone in the consensus building process.

31. **Recent and future IDA graduates would have a five-replenishment waiting period, post-graduation, before the standard upper-tier vote calculation is applied.** In recognition of the challenges faced by many recent IDA Graduates, the application of a waiting period before the full upper-tier calculations is applied to these members was broadly supported. The delay would allow recent Graduates some additional time before being treated like all other potential donors. Applicable Graduates would continue to have their voting power protected via first preemptive right votes during the five-replenishment waiting period which includes the graduating replenishment. Any contributions above the payment required for first pre-emptive rights will receive additional subscription votes priced at the uniform price. Following the end of the waiting period, the standard upper-tier vote calculation would apply to these members, and they would start at their full voting power as a result of the 100% Grandfathering agreement.

V. CONCLUSION

32. Governors assigned the IDA Board with the challenging task of reaching an agreement on how to reform IDA's voting rights framework. Directors have conducted a robust Review of all the key Building Blocks that any IDA voting rights framework would require. The analytical rigor of the discussions, along with an unwavering commitment that the outcome of the Review leave IDA better placed to fulfil its mission has resulted in unanimous consensus on a new framework. The framework is an extraordinary achievement and indeed, the main beneficiary is IDA.

33. Directors recommend the implementation of the proposed IDA voting rights framework outlined in paragraphs 25-31 above, and that it be implemented for IDA20. In addition, Directors also recommend that the framework be reviewed after the Recipient Boost has been fully implemented in IDA23 to ensure that it continues to serve IDA well.