



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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**IDA Voting Rights Review – Interim Progress Report
to Governors, Annual Meetings 2020**

Attached is the background document titled “IDA Voting Rights Review – Interim Progress Report to Governors, Annual Meetings 2020” prepared by the World Bank Group for the virtual October 16, 2020 Development Committee Meeting.

IDA Voting Rights Review

Interim Progress Report to Governors Annual Meetings 2020

October 16, 2020

ACRONYMS AND ABBREVIATIONS

COGAM	Committee on Governance and Executive Directors' Administrative Matters
EDs	Executive Directors
IBRD	International Bank for Reconstruction and Development
IDA	International Development Association
IFC	International Finance Corporation
SDGs	Sustainable Development Goals
WBG	World Bank Group

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I. INTRODUCTION

1. 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 (Review), including its scope and Guiding Principles, and requested that the IDA Board of Executive Directors (EDs) lead the Review and that IDA Deputies and Borrower Representatives be provided with regular updates. They also requested an interim progress report at the 2020 Annual Meetings and for EDs to provide an agreed timeline for concluding the discussions.

2. This Board of Executive Directors report serves to provide Governors with an overview of the progress on the Review. It provides the background of the Review (Section II), describes the organizing framework and approach EDs agreed to apply to the Review (Section III), provides a high-level overview of the topics discussed to date (Section IV), and discusses next steps in the Review (Section V).

II. BACKGROUND TO REVIEW

A. Request for Review

3. IDA is both a financial and a cooperative institution; its current voting system represents an attempt to balance both these characteristics. Most IDA matters are decided by consensus (as is the case for the other WBG institutions), and formal votes of the IDA Executive Directors are rare. Nor does the composition of IDA's Board of Executive Directors depend on members' voting rights, since the Executive Directors of the IBRD are ex officio the Executive Directors of IDA. Nevertheless, IDA's voting rights framework is important and needs to consider the voluntary nature of IDA contributions, the importance of member contributions in funding IDA's concessional and grant activities, and the fiduciary responsibilities of donors regarding their contributions.

4. The need for a review of IDA's voting rights framework was initially raised by IDA Deputies and Borrower Representatives. After some preliminary discussions on the Review's governance, it was agreed that EDs would include the topic in their work program which formed the basis for the 2019 Report to the Board of Governors seeking an endorsement of the Review. The current framework had been in place for almost 50 years (since IDA03) and EDs felt that a review would be both timely and appropriate given IDA's transition to a hybrid financing model and the issues members have highlighted with the current framework.

5. The 2019 Report highlighted the following areas which prompted the Review:

- a) A desire that the framework should do more to enhance and balance incentives for increasing contributions by existing and new donors.
- b) Concern that the current framework is overly complicated.

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

- c) Concern that the framework is outdated, that it has not evolved to reflect global changes since IDA was created.
- d) 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 donors and related preemptive rights requirements which are expensive.
- e) 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.

B. Recap of Board of Governors Endorsed Guiding Principles and Scope

6. The Guiding Principles defined in the 2019 Report and subsequently 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*

7. The Board of Governors furthermore endorsed that the scope of the Review should be limited to adjustments to the current framework, with the possibility of extending the scope of the Review if necessary.

III. ESTABLISHING A WORKING APPROACH TO THE REVIEW

8. IDA's current voting right system uses two distinct methods for calculating voting power, depending on whether a member is classified as a Part I or Part II member. This creates complexity, leads to issues relating to fairness, and makes the system less dynamic. Many attempts have been made to adjust the system in the past by IDA Deputies and Borrower Representatives. This is, however, the first time that EDs are taking the lead on this topic. Under the leadership of the Committee on Governance and Executive Director's Administrative Matters (COGAM), with technical support provided by Management, this work has included several formal engagements, open to all EDs on an equal basis, as well as informal meetings and technical briefings.

9. Prior to taking on the Review, EDs noted that it is important that the review process be set up properly to ensure a successful outcome supported by a two-thirds majority vote of IDA members. The initial focus of EDs, from October 2019 to February 2020, was to strengthen the

understanding of the current voting rights framework and to use this knowledge to develop a working approach to the Review (See Annex 1 for an overview of the current voting rights framework). Good progress was made during this time, with agreements reached on the organizing framework, the phases of the Review, the assessment criteria for options raised, and support for a proposed date of conclusion of the Review.

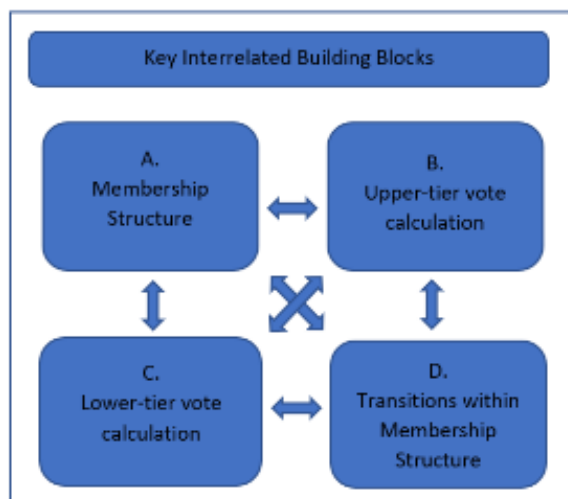
A. Consensus on Organizing Framework

10. At the outset of the Review², EDs reaffirmed the importance of maximizing development funds for the poorest countries, protection of IDA recipient voting power, and ensuring the inclusive and equitable approach among the shareholders. In order to ensure a robust review, EDs adopted an **Organizing Framework** focused on assessing the four key building blocks that any possible IDA voting framework would include (Figure A):

- a) Membership structure;
- b) Voting calculations for the upper tiers of the membership structure;
- c) Voting calculations for the lower tiers of the membership structure;
- d) Transition within membership structure.

11. This organizing framework gives EDs the flexibility to consider the specific building blocks and yet maintain oversight on the important linkages between them. It acknowledges that the current voting rights framework has served IDA well for several decades by including options in each building block that maintains the current framework.

Figure A: Key Building Blocks



2 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

B. Consensus on adopting a Two-Phased Approach

12. As noted during the initial COGAM meeting, IDA voting rights is a multifaceted issue; one that requires a commitment to open discussions, close collaboration, and a willingness to consider various adjustments and options. EDs have therefore agreed to conduct the Review in two phases. In the first deliberative phase, EDs will consider options under each building block (including the status quo), share views and preferences, provide ideas on possible ways to enhance the system within the agreed Guiding Principles, and reach consensus where possible to reduce the number of assumptions and parameters. The second phase of the Review will see EDs focus on deeper analysis and further consensus building to narrow down the remaining building block options and combinations and determine a pathway to implementation. The Review is currently in the first phase, which will likely continue through to December 2020 (see Section V. Next Steps and the Annex 2 for potential upcoming engagements).

13. Whilst IDA's current voting rights framework is complex, involving multiple parameters and calculations, it can be broken down into the four interrelated key building blocks as mentioned above. EDs have called for a packaged approach pointing out that the narrowing down of options should come with flexibility and the understanding that *'nothing is agreed until everything is agreed'*. This provides EDs an opportunity to explore options and build on consensus and preferences.

C. Assessment Criteria for Building Block Options

14. To help evaluate building block options raised in the first phase of the Review, EDs discussed the following assessment criteria, noting that there will be different interpretations by members of the criteria and subjectivity in any assessments made. Additionally, they noted there will be unavoidable trade-offs across criteria, particularly with respect to seeking to simplify the framework while at the same time addressing the other 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?*

D. Consensus on Concluding Discussions by the IDA19 Mid-Term Review

15. EDs have supported that the Review should be concluded by the IDA19 Mid-term Review in November 2021, so that the agreed approach can be implemented for the IDA20 replenishment.

IV. BUILDING BLOCK DELIBERATIONS

16. In March 2020, following the agreement on the approach to the Review, the Board commenced the first phase of the Review, which is ongoing.

A. Membership Structure

17. *Background:* IDA's current voting rights membership structure is a two-tiered structure; a member is either a Part I or a Part II member. The choice of tier, Part I or Part II, is self-selected, made by the member at the time of joining IDA and can be adjusted on a voluntary basis at any time. With the introduction of the current framework in IDA03, the tiers were used to determine the voting calculation methodology, with two very different methods of calculating voting rights for the two tiers.

18. EDs discussed possible membership structure options raised in the "IDA Voting Rights Building Block Options"³ paper, which listed possible options for each building block and compared them against the assessment criteria outlined above. Whilst early preferences for each building block were discussed, EDs highlighted the choice of membership structure as a key driver for decisions on the other building block options.

19. *Discussion on Membership Structure Options:* Seven membership structure options were looked at: the status quo, two options based on ability to contribute (systems with two or more groupings of countries at similar levels of economic development), a Non-Recipient/Recipient system, and three options based on countries' engagement with IDA (different permutations of grouping donors vs. non-donors).

20. *Outcome of Discussions:* Whilst some EDs noted their preference for the status quo and others for a multi-tiered membership structure based on economic indicators, there was agreement that **a two-tier membership structure (based on a country's IDA Non-recipient or Recipient status) could serve as a starting point to further develop the other building blocks.** Members noted that this option offers the greatest simplicity, uses the same calculation approach for all Non-recipients, recognizes contributions, and allows for independent treatment of recipients, as they are separated in their own tier. It is also dynamic and based on a country's relationship with IDA.

B. Upper Tier Vote Calculation

21. *Background:* The upper tier of the current voting rights framework's membership structure is the Part I group of members. When the framework was developed for IDA03, it was agreed that the number of votes for Part I members would be recalculated with each replenishment. Votes are in effect calculated by dividing the member's total cumulative contributions to IDA, by the replenishment's effective price (\$17,670 for IDA19). Part I members voting power is therefore based on their relative contributions; a Part I member may gain or lose voting power in a new replenishment if it contributes relatively more or less than its share of previous cumulative contributions.

³ See "IDA Voting Rights Building Block Options", IDA/SecM2020-0117, dated April 21, 2020.

22. *Discussions on Upper-Tier Options:* Discussions on the upper-tier block have highlighted two approaches with respect to the **pricing** of Non-Recipient votes.

- a) **Fixed uniform price**, where all Non-recipients pay the same price per vote has the benefit of simplicity and equality of treatment among members. It is simple and supports the notion that a contribution from one member should weigh no more, and no less, than a contribution from another member.
- b) **Price differentiation**, where sub-tiers are created within the Non-Recipients based on agreed-upon economic or other indicators, members are expected to move up the sub-tiers, and the price of a member's vote is determined by which sub-tier they are currently in. While the price would be differentiated, a fixed price within each sub-tier could be possible. Votes would be calculated in the same way for all Non-recipients, driven by contributions, however the price used would vary, with the expectation that countries converge over time, as measured by the agreed indicator(s). This approach acknowledges the diverse economic development profiles of Non-Recipient members and provides a transparent way to reflect this spectrum but introduces challenges in setting prices and sub-tiers.

23. In terms of price differentiation, possible indicators for driving sub-tiers were discussed, along with approaches for calculating relative pricing and the basis for ensuring that members' voting power reflected cumulative contributions. Indicators based on economic data such as GNI or GDP per capita were discussed, as were existing World Bank indicators. Other hybrid approaches that incorporate total GNI and adjustments for economic dependence on resources were also proposed.

24. *Outcome of Discussions:* Whilst there was some support for fixed pricing, there remain differing views on the pricing approach – uniform pricing versus differentiated pricing. EDs also discussed two possible approaches to calculating voting power based on cumulative contributions and have requested additional data and analysis. With regard to pre-emptive rights, some members prefer to retain the current approach, where upper-tier members do not actively exercise their preemptive rights, while others prefer a framework that would require all Non-Recipients to explicitly exercise their preemptive rights.

C. Lower Tier Vote Calculation

25. A full discussion on the Lower-Tier building block options is planned for the coming months (see Annex 2). However, EDs are in broad agreement on the need to protect the voting rights of IDA recipients, with many expressing support for a stand-alone Recipients-tier with lower pricing for pre-emptive rights and for additional votes. Several EDs highlighted the need to encourage contributions and enhance the voting power of Recipient countries, while a few of EDs supported a one-time boost in voting power for Recipient countries.

D. Transitions

26. Detailed discussions on the Transitions building block are also planned for the coming months. Thus far, EDs have had high-level discussions where the issue of a threshold cliff in the transition from the lower to the upper tiers (and possibly, within the upper tier, should differentiated pricing be explored) was raised. The importance of the details of any transition to a

new voting rights framework has also been noted. In addition, the need for fair treatment of members through gradual, flexible, and sustainable transitions and for it to be rules-based and transparent was also noted. Early options raised during initial discussions include greater flexibility in transition terms, temporary transition terms to smooth any impact on voting power, and possible grandfathering of voting power on transition.

E. Additional Incentives

27. EDs also briefly discussed a fifth building block (Additional Incentives) that could be added-on as complements to the building blocks (for example, a first-time donor boost or a generosity-based boost for donors). While some EDs called for the consideration of these additional incentives, several noted that this should be considered at a later stage of the Review. Most EDs were hesitant to add additional options to what was already presented in the various papers, unless they could help foster greater consensus among chairs at a later stage.

V. NEXT STEPS

28. On the basis of the discussions so far, it is clear that there is a significant commitment to ensure the Review results in an outcome that recognizes and encourages donor contributions and protects or enhances the voting power of IDA Recipients, consistent with the Guiding Principles endorsed by the Board of Governors. It will be important to continue to approach upcoming discussions with the same commitment to collaboration and consensus in the interest of the world's poorest countries and IDA as a financial institution. Whilst good progress has been made, significant work will be needed to complete the Review.

29. Upcoming COGAM engagements will discuss the remaining building blocks: the lower-tier vote calculation and transitions within the membership structure and to the new framework. This will give EDs a package, or holistic view, of all possible options in the voting framework, their impact, and possible trade-offs between them. It is expected that all building blocks will have been reviewed by December 2020 and that this will end the first phase of the Review. The Board will then continue to work toward further consensus on building block combinations and an implementation pathway in the second phase of the Review which is to be completed by November 2021. An indicative work program up to the 2021 Spring Meetings is attached as an Annex 2 to this report. A progress update will be provided to Governors at the 2021 Spring Meetings.

ANNEX 1: OVERVIEW OF CURRENT VOTING RIGHTS FRAMEWORK

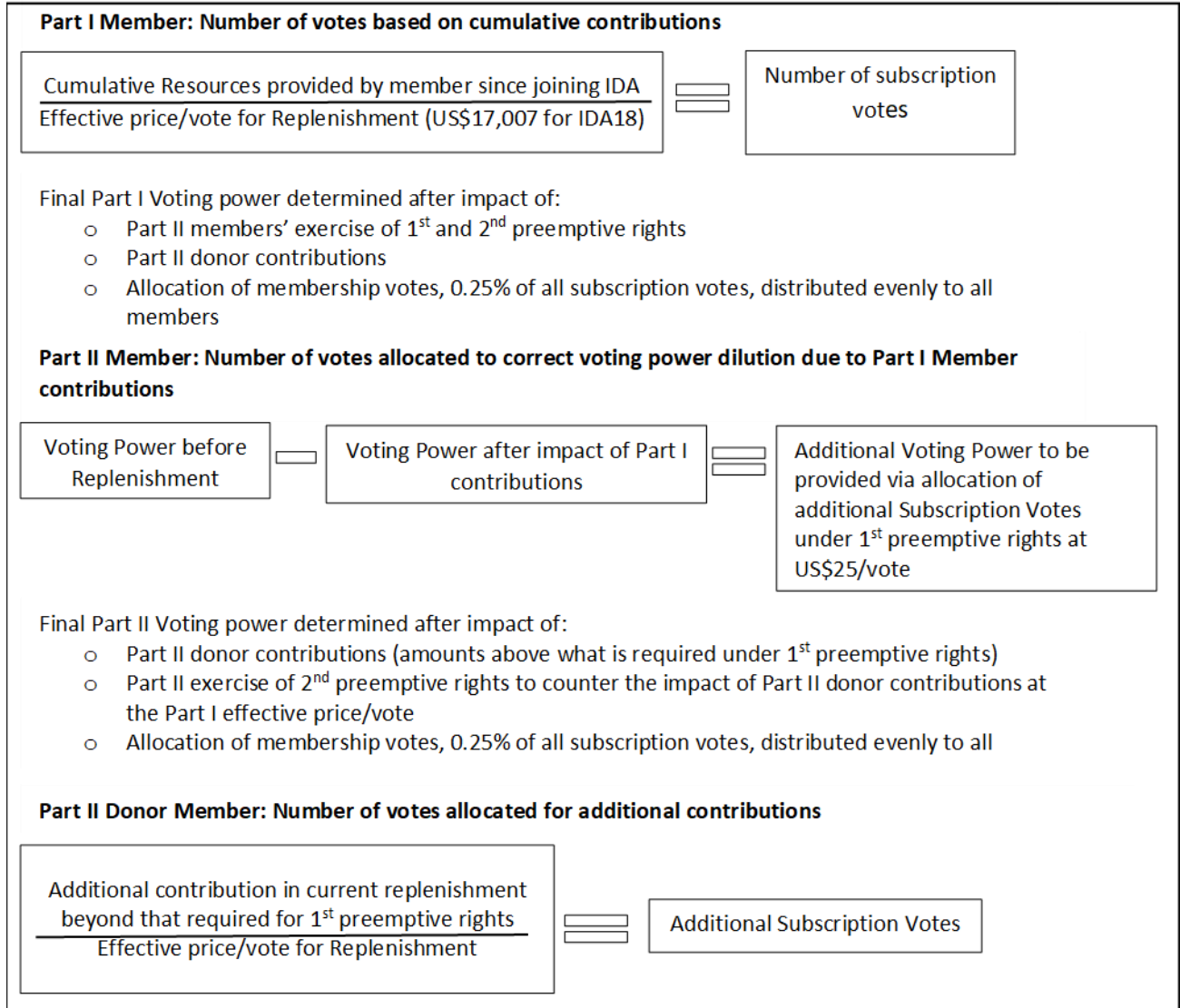
1. **IDA's 173 Members are the owners of IDA and hold voting rights.** The current voting rights framework was developed as part of IDA03 (1968-1970) and has not changed since IDA04, when a relatively minor change was introduced. Some high-level features of the framework are provided below.

2. **There are two distinct calculations to determine how many votes a member may have, one for Part I members and one for Part II members.**

- **For Part I members**, the number of subscription votes received is determined by the member's cumulative contributions to IDA relative to other Part I members. The effective price of a subscription vote is re-established after each replenishment (\$17,670 per vote for IDA19), which is applied on the total contributions provided by the Member to IDA since it was established. The actual cost of a vote is \$25, so Part I members pay a premium for their votes. This premium (\$17,645 in IDA19) is recorded as a "contribution not carrying votes.
- **For Part II members**, the number of subscription votes they are entitled to is tied to the voting power they held upon joining IDA, which is dependent on the member's IBRD subscriptions when they joined IDA. The voting power of Part II members is protected by preemptive rights, and they are automatically allocated sufficient votes to maintain the level of voting power held prior to any dilution occurring as a result of Part I donor contribution. This allocation of votes is done by the member by exercising its *first* preemptive rights at a cost of \$25 per vote. If a Part II member makes a payment beyond the amount required to maintain its voting power, it is a Part II donor and receives additional votes priced at the Part I-member effective price. Accordingly, Part II donors have a blended price per vote. Any Part II member that experiences voting power dilution as a result of Part II donor contributions may maintain their individual voting power constant by exercising their *second* preemptive rights, however they are required to pay a price per vote equal to the effective price for Part I members.

ANNEX 1: OVERVIEW OF CURRENT VOTING RIGHTS FRAMEWORK CONT.

Box 1: Part I and Part II Member Voting Calculation



ANNEX 2: IDA VOTING RIGHT REVIEW ROADMAP

Short-Term Road Map

October 2020 (Date to be determined) - Technical Briefing on Vote Calculation for the Lower-Tier Building Block.

September/October 2020 (Date to be determined) - COGAM Meeting: IDA Voting Rights Review – Lower-Tier. *COGAM will discuss options for calculating Recipients' votes and protecting and enhancing Recipients' voting power.*

November/December 2020 (Date to be determined) - Technical Briefing on the Transitions Building Block

December 2020 (Date to be determined) – COGAM Meeting: IDA Voting Rights Review – Transitions. *COGAM will discuss options for transitioning within the membership structure and to a new framework.*

February/March 2021 (Date to be determined) – Interim Progress Report to Governors, 2021 Spring Meetings. Review by COGAM, clearance by the Committee of the Whole.

Other engagements, including technical sessions, may be scheduled as needed.

Long-Term Roadmap

