DIIS WORKING PAPER

WORKING PAPER

Adjusting to multipolarity in the World Bank: ducking and diving, wriggling and squirming

Jakob Vestergaard and Robert Wade

DIIS Working Paper 2011:24

JAKOB VESTERGAARD
jve@diis.dk

ROBERT H. WADE
r.wade@lse.ac.uk

DIIS Working Papers make available DIIS researchers' and DIIS project partners' work in progress towards proper publishing. They may include important documentation which is not necessarily published elsewhere. DIIS Working Papers are published under the responsibility of the author alone. DIIS Working Papers should not be quoted without the express permission of the author.

DIIS WORKING PAPER 2011:24
© The author and DIIS, Copenhagen 2011
Danish Institute for International Studies, DIIS
Strandgade 56, DK-1401 Copenhagen, Denmark
Ph: +45 32 69 87 87
Fax: +45 32 69 87 00
E-mail: diis@diis.dk
Web: www.diis.dk
Cover Design: Carsten Schiøler
Layout: Ellen-Marie Bentsen
Printed in Denmark by Vesterkopi AS
ISBN: 978-87-7605-470-0
Price: DKK 25.00 (VAT included)
DIIS publications can be downloaded
free of charge from www.diis.dk

CONTENTS

Introduction 5

1. The governance of the World Bank 7
   Shareholding and voting power 7
   The Bank's governing bodies 8

2. Evolution of the voice reform agenda 10
   The 2003 Background Paper 10
   The 2007 Options Paper 12

3. First phase of voice reform 13
   Increasing basic votes 13
   Realignment of quota votes 14
   Increasing the voice of African countries on the Board 14

4. The second phase of voice reform 14
   The key components of the shareholding realignment 16
   Main results of the second phase of voice reform 18

5. The voting power realignment in perspective 19
   Modest changes 19
   The country reclassification game 20
   Making small changes appear generous 21
   Voting power imbalances 22

6. Problems and solutions 23
   Voting power 24
   The composition of the Board under pressure 26

7. Conclusion 27

References 29

INTRODUCTION [1]

The world is experiencing the biggest shift in the location of economic activity in centuries; roughly speaking, from West to East. The shift is creating deep insecurity in the long dominant states, prompting them to cling to the power positions they attained as a result of their economic dominance in the decades after the Second World War. It is creating ambiguity in the rising economic powers about a new role in inter-state organizations, wanting a larger voice but also wary of new responsibilities. The latest battle ground is the International Monetary Fund when Dominique Strauss-Kahn stepped down as director. European states lobbied hard to retain Europe's (France and Germany's) long monopoly on the position, and succeeded with the appointment of former French finance minister Christine Lagarde.

This essay examines the efforts of the World Bank to translate the rising economic weight of some developing countries into a larger voice in the governance of the organization. In a speech in April 2010, World Bank president Robert Zoellick argued that the advent of "a new, fast-evolving multipolar world economy" required fundamental reforms of the World Bank itself, including in the balance of power between developed countries and emerging countries [2] Shortly after the speech the World Bank presented a set of allegedly far-reaching proposals on what it called "voice reform", to be endorsed by its Board of Governors, the culmination of a process of negotiation begun years before. Voice reform had several components, of which the central and most contentious one was voting reform to give developing and transition countries (DTCs) more voting power in the Bank's governance.

The Governors approved the proposals at the 2010 Spring Meetings of the World Bank and International Monetary Fund (IMF). The headlines went around the world that the World Bank had approved a major increase in the governance role of its borrowing member states, partly by redistributing voting power in their favour. The Bank had successfully translated changes in economic weight in the world economy into changes in political weight within the organization.[3]

This sets our question: to what extent does the new distribution of votes bring the organization more closely into line with the distribution of economic weight in the world economy? Our answers are based on more than forty interviews with Bank staff and analysis of voice reform documents from the first "scoping" paper in 2003 onwards.

We find, first, that the voice reform process accomplished a total shift of voting power of 4.59 percentage points from developed countries to developing and transition countries (DTCs), increasing the share of DTCs from 42.60 % to 47.19 % and reducing the share of developed countries from 57.40 % to 52.81 %. But the shift was in fact more modest than these figures suggests because the DTC category was massaged to include several high-income countries which had no business to be there. With only low-income and middle-income countries included (using the Bank's own categorization), the shift from high to low and middle-income countries was only 3.71 percentage points, taking the share of the latter from 34.67 % to 38.38 % while the high-income countries retained more than 60 %.

1 For short essays on the main outcomes of the voice reform process see Horton (2010) and Lombardi (2010).

2 Robert Zoellick (2010).

3 Much the same shift was agreed at the IMF a little later.

Second, relative to the alleged objective of realigning voting power with the realities of the fast evolving "multipolar" world economy, the realignment was quite inadequate. So small were the shifts in voting power for the vast majority of countries that one exasperated observer described the process as a search for "compromises at the third decimal point". The upshot is that "voting power to GDP" ratios in the World Bank continue to vary widely from country to country, from 0.5 to 4, despite the oft-cited principle that voting power should "largely reflect economic weight" (so that each country's ratio should be fairly close to 1). A number of small European countries and a few large DTCs have disproportionately large amounts of voting power, while several dynamic emerging market economies, including China, continue to be significantly underrepresented. The eight-fold difference in the extent to which GDP translates into voting power undermines the normative legitimacy of the World Bank.

Third, despite repeated assurances to the contrary, low-income countries as a group (as distinct from middle-income countries) gained hardly any voting power. This reflects a pattern in which the interests of the low-income countries were marginalized in the voice reform. The culmination of this trend was the decision to make only a very small increase of "basic votes" (votes allocated equally to all countries), leaving the share of basic votes in total votes at only about half of what it was when the World Bank was established in 1944.

Fourth, the voice reform made no headway in reaching agreement on criteria for reallocating votes in future (except for the agreement that shareholding reviews should be conducted every five years). For example, it is unclear whether the next shareholding review in 2015 will take "voting power parity" between developed countries as a group and DTCs as a group as the central objective, and whether and how a country's financial contributions to IDA (the soft-loan arm of the World Bank) should be recognized in its share of IBRD votes (IBRD being the main lending arm).

Fifth, the fact that all member countries have a veto over any decrease in their share of World Bank (IBRD) votes was and will be detrimental to any process of adjustment of World Bank governance. The Articles of Agreement must be changed to remove this right of veto.

The voice reforms at the World Bank can be seen as its attempt to reconcile two different requirements for authority, requirements which all inter-state organizations have to balance: normative legitimacy, and interest-based demands of member states.[4] Normative legitimacy depends on the extent to which the organization's procedures are in line with normative principles, including agreed principles for the allocation of power within the organization. High normative legitimacy inclines members to confer authority on the organization – that is, to grant it the ability to promulgate rules that are implemented and followed. But members also confer authority on the organization to the extent that it serves their national interest. There is a tension: serving the national interest of key member states may undercut normative legitimacy, by leading the organization to fudge its compliance with its principles (of representation, for example). This essay shows how the World Bank has contorted itself to satisfy three divergent sets of expectations about its allocation of governing power: (1) the normative principle that voting power (and "voice" more generally) should be proportional to economic weight in the world economy (plus some qualifiers to protect small and poor economies); (2) interest-based demands of the long dominant states, notably

4 See Koppell (2010, chapter 2); Wade (2002).

the United States and western Europe; and (3) interest-based demands of some of the newly emerging states. Of course, the art of states pressing interest-based demands is to cloak them in normative justifications.

Section 1 gives a brief overview of the Bank's governance arrangements, and section 2 describes the evolution of the voice reform agenda in the Bank from 2003 to 2007. Section 3 examines the outcome of phase 1 of the voice reform, completed in 2008, and section 4 does the same for phase 2, completed in 2010. Section 5 makes an assessment of the voting power realignment in the light of the Bank's avowed normative principles. Section 6 describes some of the problems left unresolved for future shareholding reviews. Section 7 summarizes the main findings and recommendations.

1. THE GOVERNANCE OF THE WORLD BANK [5]

The three main components of the World Bank Group (WBG) are the International Bank for Reconstruction and Development (IBRD), the International Development Association (IDA) and the International Finance Corporation (IFC).[6] While formally there are three separate Boards for IBRD, IDA and IFC, the same people are on the Boards of each (with different voting power depending on whether the subject matter at hand concerns the IBRD, IDA or IFC).

The voice reform focused on the main lending arm, the IBRD, because while shareholding differs for IBRD, IDA and IFC, it is IBRD shareholding that determines the structure of all three Boards (DC 2010a: 3). This stems from the fact that, legally speaking, country constituencies are formed and Executive Directors of the Boards are elected on the basis of IBRD shareholding.

Shareholding and voting power

The IBRD was established in 1944 as the original organization of the World Bank Group.[7] The shareholding of its 187 member countries is comprised of two elements: basic votes and quota votes. Basic votes are allocated to all members in the same amount, and quota votes are allocated in proportion to shares subscribed to. This combined system of basic votes and quota votes was a compromise between two factions at the original Bretton Woods conference, "respectively preferring a one member–one vote system and voting based purely on the size of each country's economy" (Woodward 2007: 1). Introduced at the founding of the IBRD, basic votes were to ensure voting power for the smaller and poorer member countries. The Articles of Agreement stipulate that the number of basic votes shall be 250 per member, and this number has been held constant ever since

5 Key references in the scholarly debate on governance reforms of the World Bank include Birdsall (2006), Buira (2003), Kapur (2002), Phillips (2009), Weaver and Leiteritz (2005), and Woods (2008a, 2008b).

6 The World Bank Group is completed by three additional affiliate organizations:, the Multilateral Investment Guarantee Agency (MIGA) and the International Centre for Settlement of Investment Disputes (ICSID).

7 The IBRD aims to "reduce poverty in middle-income and creditworthy poorer countries by promoting sustainable development through loans, guarantees, risk management products, and analytical and advisory services" (DC 2010a).

1944. [8] Over the years the share of basic votes in total votes has eroded to just 2.8% from the initial level of more than 10%, as the allocation of quota votes increased.[9]

On top of the 250 basic votes, each member country has one additional vote for each share of stock held (IBRD Article V, section 3a). One share gives one quota vote. For each share of stock, a certain proportion (currently about 6%) must take the form of paid-in capital, while the remainder is "callable". Although the notion of shareholding might imply so, there is no market for IBRD shares.[10] Instead, IBRD shares are allotted to member countries in proportion to their "relative position" in the world economy (at least in principle). In the words of the World Bank:

> The fundamental principle underlying the allocation of shares of the IBRD's capital stock to its members is that members' subscriptions should reflect their relative position in the world economy, subject to the right of each member to maintain its existing pro rata share in the capital on the occasion of any increase in the authorized capital (pre-emptive right). (DC 2003a: 11-12).

Historically, the World Bank has operationalised the criterion of proportionality between shares and weight in the global economy by establishing a close link between IBRD shareholding and IMF quotas. This is odd, because the formula for IMF quotas gives only 50% weight to GDP, the other components being openness (30%), economic variability (15%) and international reserves (5%) – components which are less relevant to the World Bank's mandate than to the IMF's. The voting power reform which was agreed in 2010 abandoned the close link to the IMF quota formula. It was based on a quota "framework" developed exclusively for World Bank (IBRD) shareholding, with only indirect reference to IMF quota.[11] Taken at face value, the 2010 World Bank voting power framework gave stronger weight to GDP (75%) than in the IMF formula (50%), suggesting a close and strengthened link between GDP and voting power. In fact, however, voting power to GDP ratios in the Bank vary almost inexplicably, as we shall see.

The Bank's governing bodies

All member countries have direct representation as members of the Board of Governors, at the level of ministers. It convenes twice a year, once at the Spring Meetings of the World Bank and the IMF, and once during the Annual Meetings in the autumn. The role of the Board of Governors is limited, however. It delegates its authority to a subset of its members, which constitutes the Development Committee. But deliberation and negotiation amongst the member countries mainly take place in and through the Executive Board of Directors

8 In 1979 all member countries were invited to subscribe to an additional 250 "membership shares", which would have amounted to a doubling of basic votes (DC 2003a: 8; DC 2008a). Not all subscribed to these membership shares, and therefore the sum of basic votes continue to be stipulated at 250.

9 New quota votes were allocated in the context of a number of selective capital increases by which some countries paid in more capital and were allotted additional quota shares, with no accompanying adjustment of basic votes.

10 Countries may choose to "subscribe" to less than their allotted shares, in which case the unallotted shares go into a pool. The country then makes lower capital contributions and receives a lower share of total votes.

11 Confusingly, however, the World Bank continues to suggest otherwise at its website, explaining that 'the quota assigned by the Fund is used to determine the number of shares allotted to each new member country of the Bank' (WB 2011).

(EBD), a resident body comprised of civil servants, based in Washington. The EBD has overall responsibility for the general operations of the Bank and exercises all the powers delegated to it by the Board of Governors, which includes both executive and oversight functions.[12]

At first the EBD consisted of 12 Executive Directors, as prescribed in the IBRD Articles of Agreement (Article V, Section 4b). The five largest shareholders in the Bank were granted the right to appoint their own Executive Director, while the other seven were elected Executive Directors, based on country constituencies. Over the years, the total number of Executive Directors has increased to 25. Most of the increase occurred before the 1990s. Since then, three new seats has been created: Russia got a seat of its own in 1992, a new constituency was formed around Switzerland also in 1992, and a third seat was allocated to Africa in November 2010 as part of the voice reform. There are now eight single-country seats (US, UK, France, Germany, Japan, China, Russia, Saudi Arabia), and 17 multiple country constituency seats (see the Appendix for overview of all constituencies). Of the multiple country constituencies many are so-called "mixed constituencies", where developed countries and DTCs share a seat. Spain, for instance, currently holds the Executive Directorship of a country constituency that includes Mexico, Costa Rica and Venezuela, among others. The Development Committee mirrors the composition of the EBD but at the political rather than civil service level.

The voting system is based on the shareholding of the member countries that have appointed or elected a given Executive Director. While the same persons are on the Board of Executive Directors of the IBRD, IDA and the IFC, their respective voting power depends on which of these three WBG bodies a given vote is cast for, since countries' relative shareholding is not the same for each of the three bodies. Most decisions require a simple majority, although there are important exceptions to this rule. Special majorities are required for issues such as capital increases and amendment of the Articles of Agreement. Amendment of Articles requires approval by the Board of Governors, with support from at least 60% of member countries and at least 85% of total voting power (DC 2007b: Annex II).

The latter criterion is what gives the US a veto on constitutional changes. Given that the US has just over 15% of total voting power, no amendment of the Articles can be decided without US agreement. [13] Increases in the Bank's capital also require a special majority, although here only a 75% majority of voting power applies (DC 2003b: 5). It is important

12 The day-to-day operations of the Board include deliberating on proposals made by Bank management on IBRD loans and guarantees, IDA credits and grants, IFC investments and policies that "impact on the World Bank's general operations" (WB 2011). In addition to its executive functions, the Board has oversight functions, and two World Bank bodies report directly to the Board to help it perform this role: the Independent Evaluation Group (IEG) and the Inspection Panel. Although it is in principle within the powers of the Board to hire and fire the President, in fact he is appointed by the US and he is primarily accountable to the President of the United States and the US Congress. This, of course, has been a subject of contestation, not least in the context of voice reform deliberations, and numerous are declarations that commit the Executive Board of Directors, the Board of Governors and the Development Committee to select future Presidents of the World Bank on the basis of an "open, transparent and merit-based process". So far the declarations have had as much effect as pushing on a piece of string.

13 Special majorities in both the World Bank and the IMF have changed over time to ensure that the US kept its veto power even as its share of voting power declined. In the case of the IMF, "a special majority of 75% of votes was required when US voting power was just over 25%. That special majority requirement is now 85%, retaining a US veto power even though US voting power has slipped to 17%" (Woods, 2008b). See also Woods (2008a).

to note that in the context of an increase of the Bank's capital, each and every member country has a right to "subscribe to a proportionate share of the increase" (DC 2007b: 5). This in effect means that no member country can have its share of total shares reduced without its concurrence, a principle known as "preemptive rights" (IBRD Article II, sections 2b, 3b and 3c). The implication is that, since any realignment of voting power requires a *selective* capital increase (with those who gain voting share contributing more capital than others who loose), voting power reform can only be undertaken if all 187 member countries agree unanimously. This is not a misprint.

2. EVOLUTION OF THE VOICE REFORM AGENDA

The voice reform process originated in the Monterrey Consensus, articulated at the United Nations International Conference on Financing for Development in Monterrey on 22 March 2002. While the main elements of the Monterrey Consensus were agreements on such issues as debt relief, development aid and fighting corruption, the communiqué included an important commitment to enhance the voice and participation of developing countries in multilateral organizations:

> We stress the need to broaden and strengthen the participation of developing countries and countries with economies in transition in international economic decision-making and norm-setting … A first priority is to find pragmatic and innovative ways to further enhance … effective participation … and thereby to strengthen the international dialogue and the work of [multilateral organizations] as they address the development needs and concerns of these countries (UN 2003: 20)

For several years after the Monterrey Consensus deliberations on voice reform in the World Bank moved at a snail's pace. No one was keen to lead, especially not when the impetus came from the United Nations, a body not held in high esteem within the World Bank.

The first background report was prepared for the 2003 Spring Meetings, and the coming years saw a number of progress reports and further background reports prepared for Spring and Annual Meetings, culminating in an *Options Paper* for the 2007 Spring Meetings (DC 2007b).[14]

The 2003 Background Paper

In response to the Monterrey Consensus, the Development Committee requested the World Bank and the IMF to prepare a joint background paper to "facilitate consideration, at its Spring 2003 meeting, of ways of broadening and strengthening the voice and participation of developing countries and countries with economies in transition" in the two organizations (DC 2003a: 1). The Background Paper noted that a 'broad degree of consensus' would be required for voice reform to succeed, and then proceeded to outline the key issues and the possible avenues to pursue. It identified three main issues.

- First, the relative voting power of member countries, and particularly the question of the extent to which some countries might be said to be "over-represented" and others "under-represented".
- Second, the challenge of ensuring regional balance: the paper noted that "significant

14 In the interim period, voice reform was on the agenda of the Development Committee three times – in Fall 2003, Fall 2004 and Spring 2005.

changes in the regional composition of the Boards to strengthen developing country participation would require understandings among the membership on what *regions* are 'under'- or 'over-represented'" (DC 2003a: 2, emphasis added).
- Third, the problems of ensuring voice and participation for countries that are members of very large country constituencies, given the complexity of coordination in these constituencies.[15] The two largest constituencies have 18 and 23 member countries, respectively.)

Before discussing possible options for addressing these issues, the Background Paper identified two key issues on which there was such broad agreement as to warrant no more consideration:

- the constituency-based system of representation, and
- the principle that voting power should "in large measure reflect the relative importance of member countries in the global economy" (DC 2003a: 3).

It is important to highlight these two alleged areas of broad consensus, since subsequent developments show much dissensus around them.

The Background Paper divided its consideration of options into two main categories: proposals to enhance voice and proposals to enhance voting power:

Proposals to enhance voice

First, the paper discusses several administrative fixes to the problems of large multi-country constituencies. It states that support for these constituencies might take many different forms, ranging from the provision of technological assistance to facilitate communication with capitals (video conferencing, etc.) and establishment of a trust fund to support research and analysis for some multi-country constituencies, to supporting the employment of additional assistants and the addition of a second Alternate Executive Director.

Second, it mentions more politically or legally demanding measures to enhance the voice of developing countries, not least the possibility of increasing the number of Board seats so as to reduce the number of member countries in the largest constituencies, and of reviewing the regional composition of the Boards. "A reduction in the number of Executive Directors appointed or elected by industrial countries, combined with a rearrangement to reduce the number of countries in the largest constituencies, could be seen as proportionally strengthening the voice of developing country Directors in the Boards", the paper notes (DC 2003a: 6).

With regard to this latter option the Background Paper also notes that such "significant changes" would "raise a set of complex issues" and would require "broad-based political consensus among the membership" (ibid.). More specifically, an amendment of the Articles of Agreement would be required in order to adjust the rights of member countries standing to lose their entitlement to appoint their own Executive Director.

Proposals to enhance voting power

The Background Paper acknowledged that the "most straightforward dimension" of voice and participation is voting power on the Boards of

15 This problem is further aggravated by the severe imbalances in the resources made available for different country constituencies by the governments of their member countries, notably the modest resources available for most Executive Directors representing developing countries.

the Bank and the Fund (DC 2003a: 1). Nevertheless, it gives considerably less attention to the options in this area than on broader aspects of voice and participation: of the paper's nine pages only one is devoted to "possible avenues for enhancing voting strength" (DC 2003: 8). Further, although increasing developing countries' shareholding is recognized to be "the most direct way" of enhancing their voting power, this option is mentioned only to reject it (DC 2003a: 8). "There is not at present sufficient support", the Paper declares, for initiatives "that might lead to an increase in the overall voting share of developing countries" (ibid.).

The paper instead directs attention to the other main mechanism for enhancing the voting power of developing countries, namely a uniform increase in member countries' basic votes (an equal number to each country would raise the share for developing countries proportionately more). But the brief discussion of this option also ends on a pessimistic note, with the observation that this proposal had "been made from time to time, but lacked wide support" and that an increase in "basic votes requires an amendment of the Articles of Agreement" (ibid.). It also discusses a third option, namely to increase the use of special majorities for specific types of decisions. "It has been suggested that requiring a special majority of 70-85% of votes on critical decisions could give additional assurances that the voice of developing countries will be heard and considered" (DC 2003a: 9). However, such an increased use of special majorities "would be likely to favor the status quo", it says, "and it is not clear that it would, in practice, have the effect of increasing developing country voice" (ibid.).

The 2007 Options Paper

Those were the lines of thinking in the initiating paper of 2003. Now fast forward to 2007 when the Bank produced the "Options Paper".[16] The paper notes that between 2003 and 2007 little progress had been made. Why? "Limited debate on Voice and the overall lack of progress … are due to the lack of political consensus" on issues such as IBRD's voting structure; potential changes in IBRD's capital stock; and the composition of the Board of Executive Directors (ibid.).[17]

To push things forward, the Options Paper proposed a two phase program for voice reform:

- The first phase should move rapidly ahead with "an initial package of options which holds the promise to generate consensus and help build momentum" in areas such as appointment of more DTC nationals in senior management positions, procedures for selection of the Bank's President and for Board effectiveness (DC 2007b: 17).
- The second phase would then "address the more challenging structural options for which a political consensus can be achieved as early as possible", such as a possible increase in basic votes and a selective capital increase on the part of those countries whose voting share was to be increased (DC 2007b: 17-18).

Although the (politically-constituted) Development Committee had not discussed voice reform much since the 2003 Annual Meetings, extensive deliberations had been going on among the (civil service) Executive Direc-

16 The process was by then separate for the Bank and the Fund, and had been for a couple of years.

17 Progress is noted in one area, namely capacity building. The paper mentions two examples of voice enhancing capacity building: the establishment of an analytical trust fund "to provide sub-Saharan EDs [executive directors] with independent technical research support" and a multi-year secondment program for DTC officials in the Bank (DC 2007b: 3)

tors of the Board in the interim. Their debates inform the inventory presented in the 2007 Options Paper. It is noteworthy that out of the ten main options considered in the paper, nine relate directly to IBRD voting structure, IBRD capital stock or composition of the Board – i.e. those areas of voice reform that were treated only cursorily in the 2003 paper. That these areas of reform had now moved centre stage indicates progress of sorts.

However, most of the options required consensus or a large special majority, and the Options Paper reported that the voice reform agenda was "an issue on which agreement on a way forward has been elusive *with no significant progress made*" (DC 2007b: 16, emphasis added). The Paper then identified a set of 'concerns' with respect to which agreement was necessary:

- The need to realign the shareholdings and voting rights of member countries with their changed position in the global economy.
- The need to take into account donors' contributions to IDA and to overall ODA (official development assistance), including the funding of World Bank trust funds.
- The need to prevent or at least contain the erosion of the position of smaller countries which, although they have a small share of the global economy, represent a significant focus of the Bank's work.

The fact that four years of deliberations of member countries, mainly at the level of Executive Directors, had led to little agreement on any of them underlines the inherent difficulties of reforming the governance arrangements of the World Bank.

3. FIRST PHASE OF VOICE REFORM

At the Spring Meetings of 2008 the Development Committee encouraged "the Bank to advance work on all aspects of voice and participation, keeping in mind the distinct nature of the Bank's development mandate, and the importance of enhancing voice and participation for all developing and transition countries in the World Bank Group" (DC 2008a). Later that year, at the Bank's Annual Meeting, the Development Committee endorsed the first package of voice reforms (DC 2008b), as outlined in what was called the "Background Paper by Board and Management" (DC 2008c).[18]

The Background Paper of 2008 summarized for each reform area a wide range of options, and concluded by identifying and recommending a much narrower set of concrete decisions (but without giving the grounds on which one option was chosen over others). It identified three main areas of voice reform:

- An increase in basic votes
- A realignment of quota votes to better reflect countries' relative weight in global economy
- The addition of a third Executive Director for the African countries [19]

Increasing basic votes

The main element of the first phase of the voice reform agreed at the 2008 Annual Meetings was an increase in basic votes, for the explicit purpose of benefiting the poorest developing countries. The Background Paper of 2008 discussed three options:

18 The list of concrete decisions recommended can be found in DC (2008c, section 66a, p. 20-21).

19 Other areas of reform, beyond the scope of this paper, were voting power for DTCs (Part 2 countries) in IDA and voice reform for the IFC.

- First, the Doubling Option, by which basic votes would be doubled to reach 500 per member, or 5.55% of total votes.
- Second, the Tripling Option, by which basic votes would increase to 750 per member, taking basic votes to 8.1% of total votes.
- Third, the 'Original level' Option, by which basic votes would be reset at the level originally agreed in 1944, i.e. at 10.78% of total votes.

Eventually, the Development Committee reached agreement on the Doubling Option, the most conservative. The decision to increase basic votes by 250 per member was accompanied by a decision to maintain the share of basic votes in total votes at 5.55%, at least, in the future. In terms of the relative voting power of developed countries and DTCs, the doubling of basic votes was predicted to result in a shift of 1.2 percentage points from the former to the latter.

Realignment of quota votes

The Background Paper discussed three main options by which a realignment of quota votes might be achieved: a selective capital increase, an allocation of unallocated shares, and a share exchange (DC 2008c: 8). But it ended up by proposing further deliberation, in the form of a review that "would lead to a subsequent significant realignment" of quota votes for all member countries so as to "further enhance the Voice of DTC members" and "address the concept, advocated by some members, of moving over time towards equitable voting power between developed and developing members" (DC 2008c: 10). Note the odd language. The proposal is not for the review to 'move towards equity' but to '*address the concept* of moving towards equity'. This phrasing reflects deep-seated disagreement between developed and developing countries about the overall target of the voice reform process. The Board of Governors accepted the proposal.

Increasing the voice of African countries on the Board

The most progressive result of the first phase of the voice reform process was the decision to expand the Executive Board of Directors so as to allow a third African seat. Given both external and internal pressure to reduce rather than increase the number of Executive Directors on the Board, the successful negotiation of a third African seat by the Executive Directors was all the more significant. [20]

4. THE SECOND PHASE OF VOICE REFORM

The second phase of the voice reform was originally planned for the 2011 Spring Meetings. However, the first phase ended at the Annual Meetings in September 2008, just as the world economy went into meltdown. Soon afterwards President George Bush convened the G20 Leaders summit for the first time, which took upon itself to issue instructions to the Bretton Woods organizations about their reforms. Voice reform entered the zeitgeist as a top priority, not something that those who stood to loose could keep dragging their feet on.

So the 2009 Spring Meetings in Washington agreed to accelerate the process. "The global economy has deteriorated dramatically since

20 The decision to grant a third seat to the African countries – championed by the Nordics – was initially not widely supported on the Board. In fact, at first, few Executive Directors took the idea seriously. In 2009 the Zedillo report – commissioned by President Zoellick – urged a *reduction* of seats from 24 to 20 (Zedillo, 2009). For a brief commentary on the main findings of the Zedillo Commission see Martinez-Diaz (2009).

our last meeting", the communiqué noted, with "especially serious consequences" for developing countries, since the "[h]ard-earned progress towards the Millennium Development Goals (MDGs)" was now considered to be "in jeopardy" (DC 2007a). The immediate impact of the crisis and the need to launch a "strong multilateral response" to it motivated member countries to agree on significantly accelerating the voice reform process. "We agree to accelerate our work on the second phase of the reform", the communiqué said, "with a view to reaching agreement by the 2010 Spring Meetings" (ibid.).

Now the big obstacle could no longer be avoided: the second voice reform was mainly about transferring voting power from developed countries to developing countries in general and dynamic emerging market economies in particular. The target of the IBRD voting power realignment came from the G20 leaders at their summit in Pittsburgh in September 2009. The communiqué said:

> We stressed the importance of adopting a dynamic formula at the World Bank which primarily reflects countries' evolving economic weight and the World Bank's development mission, and that generates *an increase of at least 3% of voting power for developing and transition countries, to the benefit of under-represented countries.* While recognizing that over-represented countries will make a contribution, it will be important to protect the voting power of the smallest poor countries (G20 2009, emphasis added).[21]

During the Fall of 2009 a process of negotiation began, based on a range of options and scenarios prepared by Bank Management (DC 2009). The key issues were: which indicator to use for economic weight and which criteria other than economic weight to include.

The negotiations considered using either the IMF quota formula to measure economic weight, or one of several "GDP blends" (60/40, 50/50, 40/60 and 30/70, where the figures refer to the percentage weight of GDP at market exchange rates and at purchasing power parity [PPP]). Eventually, the Board decided to use GDP as the benchmark for economic weight, not the IMF quota (thus ending the Bank's long use of the IMF quota formula to make the first-cut allocation of its own voting shares). But deciding which GDP blend to use was not simple. Generally, developed countries prefer economic weight to be based on GDP at market exchange rates, whereas DTCs want it to be based on GDP at PPP – for the obvious reason that the GDP of DTCs tends to be significantly higher at purchasing power parity than at market exchange rates, and vice versa for developed countries. In the end the Board decided that the IBRD shareholding realignment should follow the criterion adopted in the 2008 IMF Quota and Voice Reform, a weighted average of GDP at market values (60%) and GDP at purchasing power parity (40%). [22] This was the most conservative of the options.

The DTCs initially said that no developing country should lose voting power in this second phase of the voice reform and that additional criteria beyond GDP had to be included to ensure that outcome. Developed countries, on the other hand, felt that several DTCs (such

21 Note that the G20's instruction for a shift of at least 3 percentage points was to be on top of the already achieved shift in the first phase of the voice reform.

22 This "GDP blend" is referred to in the remainder of this essay as "GDP (60/40)".

as Saudi Arabia) were significantly over-represented and should contribute to achieving the "at least 3 percentage points" target by taking cuts in their voting power. Meanwhile, many developed countries emphasised that generous contributions to IDA should be recognized in IBRD shareholding, to the dissatisfaction of many DTCs; IDA and IBRD are different organizations, so why should contributions to one give shareholding in the other? Only on one thing did all parties seem to agree: the voting power of the low-income countries should be maintained or expanded.

The key components of the shareholding realignment

Initially the aim was to arrive at a quota *formula* that would determine the shareholding of each member country. During the course of the negotiations it became clear that it would be necessary to settle for something less ambitious but more amenable to political compromise: a quota *framework*.

The quota framework set out overall principles in a format that resembled a formula but wasn't called one (especially because a "formula" implied permanence and would be taken as the starting point for the 2015 negotiations). The Executive Directors' negotiations over the framework went on interminably, involving several iterations of 'reverse engineering' to get a quota framework that would yield a result politically acceptable to all parties.

The agreed quota framework set out three factors for determining quota votes: economic weight as measured by GDP (60/40), to receive a weighting of 75%; past *and future* contributions to IDA (20%); and "contributions to development", a measure of a country's history of Bank borrowing (5%).

The GDP component

The paper that depicts the main elements of the voice reform claims that a realignment that simply brought 'under-represented' members' shareholding up to their share of the global economy (based on GDP60/40) "would yield only a 1.3% increase in DTC voting power for Phase 2 reforms" (DC 2010a: 6). To achieve the "desired net increase of at least 3 per cent" a number of "adjustments" therefore would need to be adopted (ibid.):

- First, only *developed* countries whose quota votes are below 90% of their calculated economic weights are eligible to take up additional shares to reach this 90% threshold.
- Second, all *DTCs* whose quota votes are below their calculated economic weights are eligible to take up additional shares.[23]

Moreover, the proposed voting power realignment was conditioned upon the voluntary forbearance of a number of under-represented countries including, most notably, China, Germany and the US.[24]

23 The final element of the GDP component of the IBRD quota framework was a so-called "PPP booster" which, modelled after a similar component in the 2008 IMF Quota and Voice Reform, gave countries whose "PPP-based weight in the world economy" was "30% or more above their IBRD shareholding a total increase in shareholding percentage of at least 10%" (DC 2010a: 7). Countries eligible for the PPP booster included Egypt, India, Indonesia and Uganda.

24 Quite a few European countries were identified as under-represented, including Germany, Greece, Italy, Ireland, Poland, Portugal, Spain and Turkey (DC 2010a: 24). Some of these countries chose to forego the increased shareholding they were entitled to (Germany, Greece, Portugal, Spain), while others did not (Italy, Ireland, Poland and Turkey). There were also DTCs in the list of countries identified as under-represented (Brazil, China, India, Indonesia, Korea, Mexico, Thailand, Vietnam etc), but here only China chose to forego its entitlement. The US was the sixth and final country that joined the small club of countries that chose to forego their entitlement to increased shareholding.

The IDA component

Historically, contributions to IDA had been recognised in terms of increased IBRD shareholding on an ad hoc basis for countries whose contributions were deemed particularly generous. There had not, however, been established "a rule or mechanism that takes regular IDA contributions of all IDA donors into account in IBRD shareholding" (DC 2009: 4-5). The main IDA donor countries were strongly in favour of such a mechanism, whereas new IDA donors were more interested in a mechanism that would incentivize *future* IDA commitments. Eventually, the agreed IDA component recognized both past (actual) IDA contributions and future (promised) IDA contributions. [25]

The framework for recognising IDA contributions ended up having two main dimensions, with two key components in each:

- Recognition of *past* IDA contributions: (1) Countries that meet criteria for recognition of contributions to the 13th through 15th replenishments of IDA are granted a 2% increase, while (2) countries that meet criteria for 'historical' IDA contribution (pre-IDA 13) are granted a 1-1.5% increase. Countries that meet both IDA13-15 and historical IDA contribution criteria are granted a 3-3.5% increase.
- Recognition of *future* IDA contributions: (1) Current IDA donors are allocated shares in order to maintain their voting power if they increase their IDA16 contribution (agreed by end of 2010) by at least 50% over their IDA15 contribution, while (2) new IDA donors are allocated shares so as to maintain their voting power if they contribute to IDA16 "at their notional IDA burden share" (DC 2010a: 5).

Not all were satisfied with this model for IDA recognition. The main IDA donors in recent decades – including Denmark, France, Germany, Norway, Sweden and the UK – complained that past IDA contributions carried far too little weight relative to pledges for future IDA contributions.[26] Other critics complained that the future IDA contributions component was not a general mechanism to incentivize member countries to make IDA contributions but a mechanism to preserve the voting power of certain powerful DTCs including Russia, Saudi Arabia and Kuwait (because future IDA contributions were only recognised for those DTCs that would otherwise stand to lose voting power). Without this provision these countries might have been tempted to use their pre-emptive rights to block the voice reform, and their top-most leaders made it abundantly clear to Zoellick – as in haranguing phone calls -- that they would do so.

The third and final element of the quota framework, "development contributions", was a mechanism to recognize "some of the many ways in which DTCs and their specific development experiences contribute to the World Bank Group" (DC 2010a: 9).[27] In terms of *real politik*, this component was included to prevent increased voting power for dynamic emerging market economies from eroding the relative voting power of low-income countries.

25 The 2009 Options Paper speaks explicitly of the objective of realigning IBRD shareholding so as to provide "incentives for contributions to future IDA replenishments by current and new donors" (DC 2009: 5, 23).

26 Some observers lamented that "one dollar promised is given 400 times more weight than one dollar actually given".

27 For further details see DC (2010a: 9-10).

Table 1. Main results of voting power reform

	Countries that increased their voting power (percentage points)	Countries that reduced their voting power (percentage points)
1	China (1.64)	Japan (-1.01)
2	South Korea (0.58)	France (-0.55)
3	Turkey (0.55)	United Kingdom (-0.55)
4	Mexico (0.50)	United States (-0.51)
5	Singapore (0.24)	Germany (-0.48)
6	Greece (0.21)	Canada (-0.35)
7	Brazil (0.17)	Netherlands (-0.29)
8	India (0.13)	Belgium (-0.23)
9	Vietnam (0.12)	Switzerland (-0.20)
10	Spain (0.11)	Australia (-0.19)
11	United Arab Emirates (0.09)	Venezuela (-0.16)
12	Thailand (0.08)	Italy (-0.14)
13	El Salvador (0.05)	Nigeria (-0.10)
14	Costa Rica (0.05)	Denmark (-0.09)
15	Romania (0.05)	South Africa (-0.09)
16	Poland (0.04)	Sweden (-0.09)
17	Indonesia (0.04)	Ukraine (-0.09)
18	Tunisia (0.04)	Algeria (-0.08)
19	Sudan (0.04)	Austria (-0.07)
20	Panama (0.03)	Pakistan (-0.07)

Source: DC 2010a.

Table 2. Regional profile of the voting power reallocation

	Main receivers	Main givers
Africa	None	None
Asia	China, South Korea, Singapore, India, Vietnam	Japan
Europe	Turkey, Greece, Spain	France, UK, Germany, Netherlands, Belgium, Switzerland
Americas +	Mexico, Brazil	US, Canada, Australia

Main results of the second phase of voice reform

Overall, the main result of the voice reform process was a transfer of voting power from the US, Japan and a number of European countries to dynamic emerging market economies (EMEs), especially China. Table 1 lists the 20 countries that gained most voting power and the 20 countries that yielded most voting power. It shows that the five countries that gave up most voting power were the World Bank's five largest shareholders prior to the voice reform, namely Japan, France, the UK, the US and Germany, while the main recipients were China, South Korea, Turkey and Mexico. As a direct result of the voice reform China has now moved up to become the third largest shareholder after the US and Japan.[28]

28 With regard to the substantial increase of voting power for China, it should be stressed that China gave up as much as half of its entitlement (as measured by economic weight). The Chinese said that they did so because otherwise other DTCs would have gained very little; while other observers suggested that Chinese forebearance reflected hesitation to move into high responsibility in the World Bank.

In terms of the distribution of increases and decreases in voting power across the world's four main regions, a majority of the major givers are from Europe (six of the top 10) while half of the receivers are from Asia (5 of the top 10). See table 2, which lists the top 10 countries in these two categories by region.[29]

While the main focus of the voice reform was on IBRD shareholding, which determines the structure of the Board of Executive Directors, the reform package also included voting power realignments for shareholding in the IFC and IDA. The overall shifts of voting power from developed countries to DTCs agreed upon in the course of the two phases of the voice reform process for each of these three Bank institutions, may be schematically represented as follows:

5. THE VOTING POWER REALIGNMENT IN PERSPECTIVE

Modest changes

The voice reform was crafted so that it could be presented as taking the Bank half way towards the voting power parity objective wanted by developing countries: the three percentage point shift from developed countries to DTCs raised the DTC share of voting power from about 44% before the voice reform to about 47%.

Here it is important to go behind the headlines, and in particular, behind the category of "developing and transition countries" (DTCs). The bottom line is that by using the aggregate category of DTCs and by inserting in this cat-

Table 3. DTC share of voting power in IBRD, IDA and IFC

	Before	Phase 1 (% increase)	Phase 2 (% increase)	Phase 1 + 2 (% increase)	After (%)
IBRD	42.60	1.46	3.13	4.59	47.19
IDA	40.1		5.49	5.49	45.59 [30]
IFC	33.41		6.07	6.07	39.48

Source: DC 2010a: 14, 21 & 32.

Table 4. The two phases of the IBRD voting power realignment [31] (shareholding in %) [31]

	Pre-Phase 1	Post-Phase 1	Post-Phase 2	Net change (phase 1)	Net change (phase 2)	Total net change (1+2)
LICs	3.45	3.94	3.84	0.49	-0.10	0.39
MICs	31.22	32.08	34.54	0.86	2.46	3.32
LICs + MICs	34.67	36.02	38.38	1.35	2.36	3.71
HICs	65.33	63.98	61.62	-1.35	-2.36	-3.71

29 This categorization of countries is based on UN statistics, which divide the world in five regions: Africa, Asia, the Americas, Europe and Oceania. Oceania consists of Australia, New Zealand, Norfolk Island and three groups of island states: Melanesia, Polynesia and Micronesia. To get four regions we split Oceania and put Australasia (Australia, New Zeland, and Melanesia) with the Americas to make "Americas+"; and put Polynesia and Micronesia in the Asia region

30 DTCs share in IDA shareholding may potentially increase a further 2.5 percentage points. "If all available IDA subscriptions will be taken up, Part 2 shareholding in IDA could increase to 48.3 per cent" (DC 2010a: 14).

31 Net changes (last three columns in the table) are given in percentage points.

egory several high-income countries which are not borrowers from the Bank, the architects of the voice reform made it look as though a significantly bigger shift towards low- and middle-income countries had been effected than was actually the case. To see this, consider table 4, which summarizes the phases of the voting power realignment and its net effect on low and middle-income countries:

The high-income countries managed to limit their losses to the point where they remain above 60%: pre-reform they had 65.3%, now they have 61.6%. In other words, if parity is taken to refer to low and middle-income countries on the one hand, and high-income countries on the other hand – as would be natural in the case of the World Bank, which normally uses this three-fold income categorization – parity remains a long way off. The 3 percentage point shift was only roughly one fifth of what would have been required to achieve parity in these terms (namely, a 15.33 percentage point shift, taking the aggregate share of LICs and MICs from 34.67 % to 50%).

Note also, with respect to the scale of the voting power reform for *individual* member countries, that only 22 of the 187 member countries were subject to a change of voting power of more than 0.1 percentage points, only 8 countries to a change of more than 0.5 percentage points, and only two countries (China and Japan) to a change of more than one percentage point (see table 1). Voting power changes of this magnitude are a strikingly modest outcome of intense and costly deliberations in the Board over the course of almost a decade.

The country reclassification game

Why did the Bank use the developed versus DTC categorization for the purposes of the voice reform rather than its normal high, medium, low income categorization? It justified the choice by saying it was using the same categorization as the IMF. The standard IMF classification divides countries into 'Advanced Economies' (AE) and Developing and Emerging Economies (D&E). In the context of the 2008 quota review, the IMF made some amendments in defining its DTC category. In addition to the Developing and Emerging Economies (D&E), the Fund added six countries normally classified by the IMF as "advanced economies" and by the Bank as "high-income", including South Korea and Singapore. From 2008 onwards, this new set of "DTC" countries framed voice reform both in the Fund and the Bank. Table 5 shows those countries classified as high-income countries by the Bank which were incorporated in the new DTC category.

While the first set of countries result simply from the fact that the World Bank and the IMF classify countries differently, the second set of countries is more problematic. Three of these countries (Czech Republic, Slovak Republic and Slovenia) may be considered transition economies, but it is difficult to see the logic underlying the decision to count South Korea, Singapore and Malta as DTCs. Four of these six countries are OECD member countries (only Malta and Singapore are not).[32]

32 The DTC category included three further OECD member countries: Estonia, Hungary and Poland, c.f. column 1 in table 7 above.

Table 5. High-income countries reclassified as "DTCs"

High-income countries classified by IMF as Developing and Emerging Economies	Countries classified by IMF as Advanced Economies, but counted as "DTC" countries in voice reform deliberations
Bahamas, Bahrain, Barbados, Brunei Darussalam, Croatia, Equatorial Guinea, Estonia, Hungary, Kuwait, Latvia, Oman, Poland, Qatar, Saudi Arabia, Trinidad & Tobago, United Arab Emirates	Czech Republic, South Korea, Malta, Singapore, Slovak Republic, Slovenia

According to the Bank, the rationale of using the IMF's DTC classification instead of the LIC and MIC categories of its own statistics was to ensure comparability with voice reforms in the IMF. Whatever the force of this rationale, it is not coincidental that the choice also had the pleasing result of making the shift of voting power achieved in the Bank appear larger than it actually was. The choice of the IMF's DTC categorization helped the Bank move considerably closer to parity of voting power.

Before the voting power reforms of 2008 and 2010 – when the Bank was still using its own income categorizations in voice reform deliberations – achieving voting power parity seemed a tall order; negotiating a shift from just under 35 % to 50 % would be a near-impossibility. In terms of the DTC category, however, voting power parity was in fact very nearly achieved; the DTC share in total voting power is less than 3 percentage points away from the 50% threshold. But of the apparent major shift in favour of DTCs – 12.5 percentage points, from the pre-reform share of 34.67% to the post-reform share of 47.19% – only 3.7% was an actual shift of voting power between countries; the rest was a reclassification effect.[33]

Making small changes appear generous

The preceding sections demonstrate that the voting power realignments were substantially more modest than they appeared to be, particularly for low-income countries. Understandably the Bank put a different gloss on it, boasting that the shift of voting power was more than two times larger than it would have been based on economic weight alone. More specifically, the Bank claimed that a phase 2 voice reform which increased the shareholding of under-represented countries so as to reflect their weight in the global economy would give DTCs only an aggregate net increase of 1.3%

Table 6. The move towards parity– by different country classifications (%)

	LIC+MIC	DTC
NDC share before reforms	34.67	42.60
Phase 1	1.35	1.46
Phase 2	2.36	3.13
Total shift	3.71	4.59
NDC share after reforms	38.38	47.19

Note: NDC stands for "not developed countries"

33 Total increase: 7.19%. Shift of voting power from developed to developing countries: 3.71%. Reclassification effect: 7.19-3.71=3.48%.

voting power, as compared to the 3.13% accomplished (DC 2010a: 6).[34] If this 1.3 percentage points figure is taken at face value, the phase 2 voice reform was in fact *generous* on the part of developed countries: they ceded more voting power to DTCs than was justified by their respective relative shares of world GDP.

But again, one should not take this argument at face value. On the one hand, Bank documents on the voice reform acknowledge the pressing need to adjust IBRD shareholding to reflect the rapidly changing configuration of the global economy (as in President Zoellick's historic speech of April 2010); and on the other hand they argue that such adjustment would yield only a total shift of just over 1% of shareholding and voting power.

Unfortunately, it is not easy to penetrate much further into this matter because the Bank does not give details of *how* it arrived at the mysteriously low figure of 1.3 percentage points, nor of the calculations of the voting power realignment more generally. Our attempts to get details of the calculus, via inside sources, were vigorously rebuffed. Even Executive Directors have difficulty getting them.[35] But we can surmise that two factors were important in determining the underestimation of voting power imbalances:

- The use of a conservative benchmark for economic weight in the global economy. Of the GDP blends considered during the Options Phase – from 60/40 at the conservative end to 30/70 at the progressive end – the most conservative option was eventually chosen.
- The *de facto* counting of basic votes of low-income countries as over-representation of DTCs.

Thanks to these two factors the voting power realignment looked more generous than it was; and specifically, did much less to match voting power with relative economic weight.

Voting power imbalances

The overall shifts of voting power were particularly inadequate when seen in relation to the changing composition of world GDP. Table 7 lists the voting power to GDP ratios of the thirty largest countries (at GDP60/40). The ratio varies from below 0.5 at the bottom end (China) to almost 4 at the top end (Saudi Arabia).

Although basic votes and the inclusion of criteria other than GDP in the quota framework will by definition lead to variation in this ratio from country to country, the variation demonstrated here is far in excess of what is reasonable. Indeed, the Bank itself has typically defined 0.85 as the threshold for under-representation: countries whose shareholding to economic weight ratio was below this threshold would then be eligible to increase their shareholding.[36] But only ten out of the thirty largest countries have a voting power to GDP ratio within a 0.85 to 1.15 band of variation. In other words, *two thirds* of these countries re-

34 "An SCI that brought under-represented member's IBRD shareholding up to their share of the global economy based on GDP 60/40, however, would yield only a 1.3% net increase in DTC voting power for Phase 2 reforms" (DC 2010a: 6).

35 Technically, the Bank justifies this lack of transparency with reference to the corporate-administrative exceptions provided for under the "Access to Information" policy.

36 This was the rule adopted, for instance, in the 1998 selective capital increase.

Table 7. Voting power to GDP ratios in the World Bank

Country	Share of GDP (60/40) (%)	Share of voting power (VP) (%)	VP to GDP ratio
US	22.29	15.85	0.71
China	10.37	4.42	0.43
Japan	7.34	6.84	0.93
Germany	5.01	4.00	0.80
France	3.84	3.75	0.98
India	3.60	2.91	0.81
UK	3.45	3.75	1.09
Italy	3.18	2.64	0.83
Russian	2.84	2.77	0.98
Brazil	2.74	2.24	0.82
Spain	2.31	1.85	0.80
Canada	2.05	2.43	1.18
Mexico	1.78	1.68	0.94
Korea, Rep.	1.61	1.57	0.98
Australia	1.40	1.33	0.95
Turkey	1.23	1.08	0.88
Netherlands	1.16	1.92	1.65
Indonesia	1.11	0.98	0.88
Poland	0.86	0.73	0.85
Iran	0.84	1.47	1.75
Saudi Arabia	0.72	2.77	3.86
Belgium	0.68	1.57	2.30
Argentina	0.66	1.12	1.71
Sweden	0.60	0.85	1.41
Thailand	0.59	0.49	0.84
South Africa	0.59	0.76	1.30
Austria	0.56	0.63	1.12
Norway	0.53	0.58	1.10
Venezuela	0.53	1.11	2.11
Greece	0.52	0.33	0.64

Source: World Development Indicators, 2009 data.

main significantly under-represented or over-represented by the Bank's own criterion.[37]

We conclude that the oft-cited principle that voting power should "in large measure reflect the relative importance of member countries in the global economy" is more rhetoric than practice.[38]

37 This is the unfortunate but inevitable effect of allocating 25 pct of IBRD shareholding on the basis of criteria other than GDP (and not closely correlating with GDP), such as contributions to IDA.

38 This quote is from one of the first Development Committee background papers on voice reform (2003a: 3), but all subsequent papers reiterate it again and again.

6. PROBLEMS AND SOLUTIONS

While resistance to more substantial voting power realignments may be in the short-term interest of some developed countries, it is not in their collective medium to long-term interests. It will likely contribute to further marginalization of the Bretton Woods organizations, to the benefit of the G20 and other such fora comprised of the largest economic powers. This is, of course, to the detriment of countries not included in small and exclusive fora.[39]

39 See Vestergaard and Wade, 2011.

From the analysis of this essay we can identify several important problems which will have to be tackled in the 2015 shareholding review:

- Absence of agreement on the overall objective of voice reform
- Absence of agreement on principles and criteria for future realignments
- The use of IDA recognition as an instrument to defer adjustment
- Increasingly untenable system of single-country seats

The first three relate to voting power and the fourth to the future composition of the Executive Board and the Development Committee. We propose two reforms to address these problems: a simplification of the allocation of quota votes and a reconfiguration of country constituencies.

Voting power

Principles and criteria

The 2010 voting power realignment has not established a framework or a precedent on the basis of which the 2015 shareholding review can be undertaken. On the contrary, the possibility of using the 2010 quota framework for the 2015 shareholding review has been explicitly ruled out:

> The approach used for the 2010 shareholding realignment and its elements *are the basis for the current selective capital increase only*. For the next shareholding review in 2015, we committed to establish a work program and a roadmap to arrive at a benchmark for a dynamic formula reflecting the principles we agreed … moving over time towards equitable voting power and protecting the voting power of the smallest poor countries (DC 2010b, emphasis added).

This decision reflects, of course, that many member countries were highly dissatisfied with the quota framework developed for the 2010 voting power realignment. The decision not to use the framework for subsequent shareholding reviews was an essential condition in persuading them to sign onto the 2010 voice reform. Thus, although member countries have agreed to develop a "transparent, dynamic and rules-based formula" for the 2015 shareholding review (DC 2010b), one should not underestimate the difficulty of this task, particularly given that deliberations will have to start from scratch.

Overall objective

Member countries remain in deep disagreement on the overall objectives of future voting power reforms. Many DTCs see parity of voting power as the overall objective, whereas many developed countries consider parity a profoundly problematic objective, not least from the perspective of a rapidly evolving global economy where DTCs should progressively "graduate" to become developed countries, hence making parity an increasingly anachronistic objective.

This disagreement was reflected in the communiqué from the 2010 Spring Meetings, which abstains from using the word parity due to fierce resistance from Part 1 countries. Instead, the communiqué states that "future IBRD shareholding reviews will aim at closing the remaining gap towards *equitable* voting power" (DC 2010b, emphasis added), a phrasing more open to interpretation.[40]

40 This variation in interpretation was referred in the 2009 Options paper: "Some shareholders envision the shift in 2010 as a move towards the ultimate objective of parity (50:50 voting power)… Other shareholders envision the shift in 2010 as the result of the application of agreed criteria, and consider that 'equitable voting power can be measured in other ways' (economic weight, equality of countries, and equality of population)" (DC 2009: 2).

While this room for interpretation was a necessary part of the political compromise of the 2010 voice reform, it constitutes a significant unresolved issue for future deliberations. Should "parity" remain the overall objective of future shareholding realignments? If so, how should one draw the line between developed countries and DTCs in the context of a global economy that lends itself less and less easily to such a neat distinction?

In considering these issues for the future, the Bank should gauge recent experiences with framing the voice reform agenda in these terms. Framing voice reform in the Bretton Woods organizations in terms of parity of voting power invited a dubious game of country reclassification to disarm what would otherwise have been too big a shift to low and middle-income countries, in the eyes of many developed countries. To this end, developed country negotiators secured two victories:

- First, parity should be achieved not for developing or low and middle-income countries (vis-à-vis developed or high-income countries), but between developing *and transition* countries, DTCs (vis-à-vis developed countries). The voting power of a number of high-income Eastern European countries (Poland, Hungary, Czech Republic, Slovenia etc.) should be counted on the side of developing countries instead of on the side of developed countries.
- Second, this new category of DTCs should be interpreted creatively, so as to include not only a number of countries that are high-income countries in normal World Bank classification, but also others which the IMF classifies as 'advanced economies' and which are members of the OECD, such as South Korea and Singapore.

In addition to being a strangely arbitrary and non-dynamic objective for future voting power realignments, "parity" between developed countries and DTCs does *not* serve the interests of developing countries nor the interest of the Bretton Woods organizations in restoring their own legitimacy.

Shareholding should satisfy three criteria: representation, effectiveness and simplicity. The widely accepted principle of using economic weight (measured by shares of world GDP) as determinant of shareholding reflects a compromise between representation and effectiveness: full and equal representation of all countries would undermine effectiveness, whereas a small body of the largest economic powers might be effective but would lack representational legitimacy. The Bretton Woods system of country constituencies and weighted voting is an excellent model – the only problem is that what determines shareholding and voting power is *not* (primarily) relative economic weight, as we have seen.

The three criteria of representation, effectiveness and simplicity would all be met – indeed would best be met – by simply allocating to countries quota votes in direct proportion to their share of world GDP. There is no better way to ensure that relative voting power reflects the realities of the global economy – while at the same time avoiding all manner of resource and time-consuming political battles in and around a more complex shareholding formula. And in addition to allocating quota votes in direct proportion to GDP shares, basic votes should be restored at the original level of 10.78% of total votes. In combination, these two principles of voting power reform would constitute a progressive agenda.

Of course, such a simplified allocation of quota votes would imply the end of IDA recognition in IBRD shareholding. This would in itself be an achievement, not a loss. The IDA component has helped two types of countries maintain a larger share of IBRD shareholding

and voting power than they would otherwise have been able to:

- First, a number of traditional IDA donors have been able to moderate the downward adjustment of their IBRD shareholding through the "historical IDA contribution" component.
- Second, a number of large DTCs have avoided a loss of shareholding and voting power through the "future IDA contribution" component.

Although the official line is that these components are necessary if the Bank is going to be able to maintain generous IDA contributions from traditional IDA donors as well as recruit new IDA donors in the DTC group, there is little evidence to support such claims – and in fact its primary purpose seems to have been to serve as an instrument of resistance to voting power realignment.

The composition of the Board under pressure

The current combined system of appointed and elected seats on the Executive Board of Directors is under pressure because of the rapidly changing configuration of the global economy. Although the Articles of Agreement stipulate that only the five largest shareholders have an appointed seat all to themselves, the number of de facto appointed seats has already risen from the original five (US, Japan, Germany, France, UK) to eight, with the addition of single country seats for China, Russia and Saudi Arabia. With new powers demanding to be treated fairly and waning ones refusing to give up their privileges, the total number of appointed seats is likely to continue to increase in the coming decade. See table 8.

Even before the ink is dry on the voice reform agreements, the voting power of the largest countries as well as the granting of appointed seats is already significantly out of line with the configuration of the world economy. Within the top 10, the UK and France command more voting power than their GDPs merit, and India and Brazil less. By the criterion of GDP, there is little justification to explain why India has not been granted an appointed seat when Russia has been allowed to keep its seat. More importantly, by 2016 Brazil and India will have risen above the UK and France in economic weight (irrespective of the GDP blend chosen as indicator), and hence will also have a legitimate claim to an appointed seat.

Table 8. The global economy and the system of appointed seats under pressure

	Voting Power (%)	2008 GDP (60/40)	2016 GDP (60/40) [41]
1	US (15.85)	United States	United States
2	Japan (6.84)	China	China
3	China (4.42)	Japan	Japan
4	Germany (4.0)	Germany	India
5	France (3.75)	France	Germany
6	United Kingdom (3.75)	United Kingdom	Brazil
7	India (2.91)	Italy	Russia
8	Russia (2.77)	India	United Kingdom
9	Saudi Arabia (2.77)	Russia	France
10	Italy (2.64)	Brazil	Italy

Source: DC 2010a and World Economic Outlook September 2011

41 This ranking result is robust with respect to GDP blend: the exact same top 10 ranking applies for the opposite blend, GDP (40/60).

If India and Brazil are indeed to be granted appointed seats this can only happen in one of two ways: by increasing the number of Executive Directors on the Board (from 25 to 27) or by reconfiguring country constituencies. Neither a larger Board nor fewer but larger elected country constituencies are desirable solutions. Instead, the World Bank Group should move in the direction of an all-elected Board, that is, a Board comprised of only multi-country constituencies.[42] In operational terms this would imply that countries currently holding a single country seat would have to share it with, say, at least two other countries.

7. CONCLUSION

For the first time in the World Bank's history a comprehensive voting power realignment has been agreed. Considering that all 187 member countries had veto power over any agreement reached, this was a remarkable diplomatic achievement. As for its *impact* on the Bank, some observers see the voice reform as a 'complete game-changer' and consider the fact that most parties are frustrated with the deal as testifying to a process of negotiation and compromise where all parties have been forced to give up some of their own narrow interest for a significant collective agreement. Others see it as a minor step which will not substantially affect the day-to-day operations of the Bank, and which falls far short of what is necessary to increase the legitimacy of the institution. The main findings of this essay tend to support the latter view. To recap:

First, the aggregate shift of voting power from developed to developing countries is very modest in percentage point terms, and lower than official figures indicate. The total shift of voting power from high-income countries to low and middle-income countries is 3.71% (1.35% in phase 1 and 2.36% in phase 2). As a result, high-income countries have retained more than 60% of voting power.

Second, the stated objective of at least avoiding *a decline* in voting power for the world's poorest countries in the second phase of the voice reform was not achieved; the aggregate voting power of low-income countries in fact decreased in the second phase. Low-income countries received an aggregate increase of voting power, over two phases of voice reform, of only 0.39 percentage point. This was less than 10% of the aggregate shift of voting power from developed countries to DTCs.

Third, as a consequence of these modest adjustments of voting power, large voting power imbalances remain. The voting power to GDP ratio varies from less than 0.5 to almost 4. This more than eightfold difference in how GDP translates into voting power is problematic, not least in light of the Bank's repeated emphasis that shareholding "should reflect in large measure the economic weight of member countries".

Overall, the voice reform is a modest achievement in terms of the objective of enhancing the voice and participation of developing countries. The modesty can be explained in terms of the tension noted at the beginning between two requirements for authority of inter-state organizations. By not going further to adjust its voting power system to the realities of the global economy the World Bank has missed an opportunity to bolster its representational legitimacy and strengthen the larger system of multilateral cooperation that has taken half a century to build.

42 For more details on a possible restructuring of the Executive Boards of the Bretton Woods institutions, see Vestergaard and Wade (2011).

The Bank's Articles of Agreement – notably their granting of pre-emptive rights to all member countries on any decrease of their relative shareholding – was no doubt a considerable barrier to substantial voice reform. It is unfortunate that the World Bank is constrained in this manner in a situation where its future legitimacy and viability depend on adjustment of its governance to the realities of the global economy. While some limited voice reform was achieved, the question remains of whether the Articles make adjustment of the Bank's governance so difficult that it will be unable to reshape and reinvent itself so as to be an attractive forum for multilateral development corporation, for low, middle and high-income countries alike.

For the future, it is important that:

- The Articles of Agreement are amended so as to allow voting power realignments on the basis of special majority (by abolishing the pre-emptive rights of member countries).
- Quota votes are assigned to member countries in direct proportion to their share of world GDP (50% market exchange rate, 50% purchasing power parity), by abandoning all other country-specific criteria, including contributions to IDA.
- Basic votes are restored to at least 10% of total votes, which was their original level in 1944.
- Future shareholding realignments are undertaken automatically – each year – on the basis of the above two principles for allocation of quota votes and basic votes.

REFERENCES

Birdsall, N. (2006). *Rescuing the World Bank. A CGD Working Group Report & Selected Essays*. Center for Global Development. Washington D.C.: United Books Press.

Buira, A. (ed.) (2003). Challenges to the World Bank and IMF: Developing country perspectives, London: Anthem Press.

DC (2003a). Enhancing voice and participation of developing and transition countries in decision-making at the World Bank and the IMF, Development Committee, DC 2003-0002, Washington D.C.

DC (2003b). Enhancing voice and participation of developing and transition countries: Progress Report by the Boards of the World Bank and the IMF, Development Committee, DC 2003-0012, Washington D.C.

DC (2007a). Development Committee Communiqué, 15 April 2007, Washington D.C.

DC (2007b). Options paper on voice and representation. Final update report, Development Committee DC 2007-0009/1, Washington D.C.

DC (2008a). Development Committee Communiqué, 13 April 2008, Washington D.C.

DC (2008b). Development Committee Communiqué, 12 October 2008, Washington D.C.

DC (2008c). Enhancing voice and participation of developing and transition countries in the World Bank Group: Options for Reform, Development Committee, DC 2008-0013, Washington D.C.

DC (2009). Enhancing voice and participation of developing and transition countries in the World Bank Group: Discussion Paper, Development Committee, SecM 2009-0444/2, Washington D.C.

DC (2010a). World Bank Group voice reform: enhancing voice and participation of developing and transition countries in 2010 and beyond, Development Committee, DC2010-0006, Washington D.C.

DC (2010b). Development Committee Communiqué, 25 April 2010, Washington D.C.

G20 (2009). G20 Leaders' communiqué from the Pittsburgh summit.

Horton, A. (2010) Analysis of World Bank voting reforms: Governance remains illegitimate and outdated. London: The Bretton Woods Project.

Kapur, D. (2002). The changing anatomy of governance of the World Bank, in Pincus and Winters (eds.) *Reinventing the World Bank*, New York: Cornell University Press.

Kapur, D., Lewis, J.P. and Webb, R. (eds.) (1997). *The World Bank. Its first half century*, Washington D.C.: The Brookings Institution.

Koppell, Jonathan (2010). *World Rule*, University of Chicago Press.

Leech and Leech (2005). Voting power in the Bretton Woods institutions, *Homo Oeconomicus*, 22 (4): 605–627.

Lombardi, D. (2010) Taking Stock of the IMF and World Bank Spring Meetings: G-20 Here to Stay? Washington DC.: The Brookings Institution.

Martinez-Diaz, L. (2009) *Toward a Grand Bargain on World Bank Reform*, Washington D.C.: The Brookings Institution.

Mikesell, R.F. (1994). The Bretton Woods debates: A memoir, *Essay in International Finance No. 192,* Princeton, New Jersey: Princeton University Press.

Phillips, D. A. (2009). *Reforming the World Bank: Twenty years of Trial – and Error*, New York: Cambridge University Press

UN (2003). *Monterrey consensus on financing for development*, Department of Economic and Social Affairs, Geneva: United Nations.

Yi-Chong, X. and Weller, P. (2009). Inside the World Bank. Exploding the myth of the monolithic Bank, Palgrave Macmillan.

Vestergaard, J. and Wade, R. (2011). The new Global Economic Council: governance reform at the G20, the IMF and the World Bank., *DIIS Working Paper*. Copenhagen: Danish Institute for International Studies.

Weaver, C. and Leiteritz, R.J. (2005). 'Our poverty is a world full of dreams': Reforming the World Bank, *Global Governance*: 369–388.

Wade, R. (2002). "US hegemony and the World Bank: the fight over people and ideas", Review of International Political Economy, 9, 2: 201-229.

Wade, R. (2011). From waning to emerging world order, *Politics and Society* (forthcoming).

WB (2011). Voting powers, Washington D.C.: World Bank Group. http://web.worldbank.org/WBSITE/EXTERNAL/EXTABOUTUS/ORGANIZATION/BODEXT/0,,contentMDK:21429866~menuPK:64020035~pagePK:64020054~piPK:64020408~theSitePK:278036,00.html (accessed 29 January 2011).

Woods, N. (2008a). From Intervention to cooperation: reforming the IMF and World Bank, Progressive governance, London.

Woods, N. (2008b). Governing the Global Economy: Strengthening Multilateral Institutions, International Peace Institute.

Woodward, D. (2007). IMF voting reform: need, opportunity and options, *G24 Discussion Paper Series*, No. 49, December 2007. Geneva: United Nations.

Zedillo Commission (2009). Empowering the World Bank for the 21st Century, Report of the High-Level Commission on Modernization of World Bank Group Governance, Washington D.C: The World Bank.

Robert Zoellick, (2010). "The end of the Third World?" Address to Woodrow Wilson Center for International Scholars, Washington D.C., 14 April.