At issue: Analysis of World Bank voting reforms
Governance remains illegitimate and outdated

Recent shifts in countries' voting power across the World Bank have been spun as "historic changes". A closer look shows that the World Bank will continue to be overwhelmingly dominated by rich countries for decades. Inadequate reform stunts the Bank's legitimacy, limits its capacity to serve the interests of developing countries, and violates democratic principles.

Summary of changes

High-income countries[1] are set to hold onto over 60 per cent of voting power across the World Bank Group for at least the next five years. Middle-income countries – including global powers such as India, China and Brazil – are stuck on only around one third of the votes. Low-income countries languish on just 6 per cent, averaged across the different arms of the World Bank. Yet developing countries represent over 80 per cent of the world's population and Bank's membership; are where almost all of the Bank's activities take place; and, through loan repayments, are the main financial contributors to the Bank.

IBRD

The International Bank for Reconstruction and Development (IBRD) is the arm of the World Bank that offers finance to middle-income countries. Voting shares are determined by countries' economic weight, their contributions to IDA (see below), and a commitment to move over time to 'equitable voting power' between developed countries and developing or transition countries. Extra votes are being issued to certain countries in return for those countries making extra contributions to the Bank's capital.

The Bank's claims: The Bank says that developing and transition countries will gain 3.13 per cent of the voting shares at IBRD, bringing them to 47.19 per cent. It claims that this represents a total shift of 4.59 per cent since 2008.

A closer look: The category of developing and transition countries, which is based on the IMF's *World Economic Outlook*, includes 16 countries that the Bank classifies as high-income economies.[2] Among them are Saudi Arabia, Hungary and Kuwait. These 16 countries together hold over 5 per cent of the vote. In reality then, high-income countries will cling onto almost 61 per cent of the vote, with middle-income countries getting under 35 per cent, and low-income countries on just 4.46 per cent.

The 78 countries actually eligible to borrow from IBRD will have only a third of voting power (34.1 per cent). Compare that to the more than one quarter of votes held by the 27 countries of the European Union. China and South Korea will gain more than half of the total transfer, while African countries will have a mere 0.19 per cent more than before.

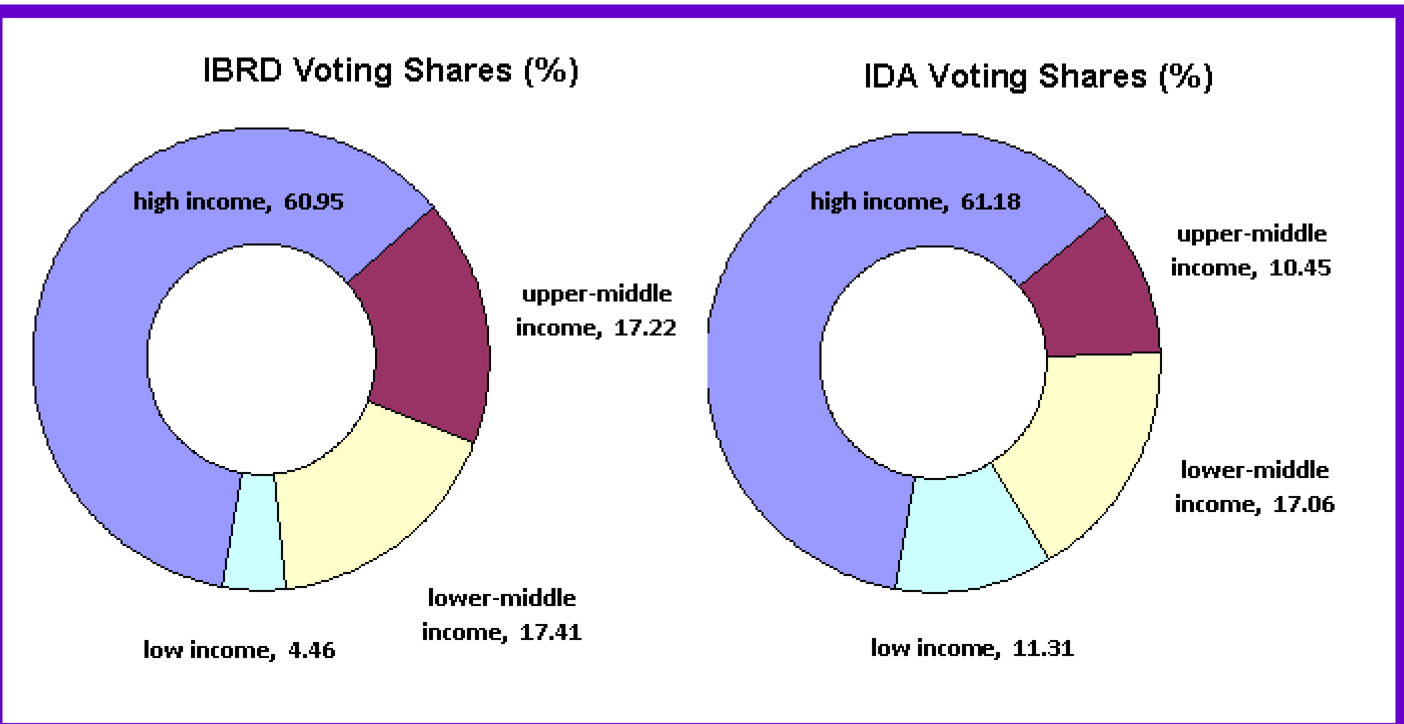
The biggest winners: China (1.64%), South Korea (0.58%), Turkey (0.55%), Mexico (0.5%), and Singapore (0.24%). South Korea and Singapore are both high-income countries, and Mexico and Turkey are upper middle-income countries.

The biggest losers: Japan (-1.01%), UK (-0.55%), France (-0.55%), US (-0.51%), and Germany (-0.48%).

IDA

The World Bank's International Development Association (IDA) provides grants and concessional loans to the poorest countries. 79 countries, with a total population of 2.5 billion people, are eligible for IDA funding. No new voting shares have been created for IDA. However, not all countries had taken up the full voting shares available to them, because to do so requires a financial contribution to the Bank. Four donor countries provided funds to enable poor countries to take up some of those previously unused shares.

The Bank groups IDA member countries into Part I or Part II. Part I comprises 26 wealthy countries, and the 143 Part II members are a mix of



high-, middle- and low-income countries, including Saudi Arabia, South Korea and Israel.

The Bank's claims: The Bank says that "Part II IDA members' voting power has increased to 45.59%, as of March 2010. This represents very significant progress, up from 40.1% at the start of voice reform discussions in April 2008."

A closer look: Excluding high-income Part II countries,[3] only 4.3 per cent of voting power at IDA has actually been transferred to developing countries. Low-income countries gained just 3.32 per cent.

High-income countries still have over 61 per cent of the votes, middle-income countries have under 28 per cent, and low-income countries have only 11 per cent. The very countries that IDA is meant to serve have the least representation. Eleven countries in Sub-Saharan Africa have actually suffered a decline in their relative voting power.[4] Bangladesh has lost more than the UK.

The biggest winners: the Philippines (0.42%), Zimbabwe (0.34%), Algeria (0.26%), Moldova (0.25%), and Ethiopia (0.24%). Only half of the ten countries that gained most are low-income countries.

The biggest losers: the US (-1.47%), Japan (-1.09%), Germany (-0.69%), Italy (-0.34%), and France (-0.29%).

IFC

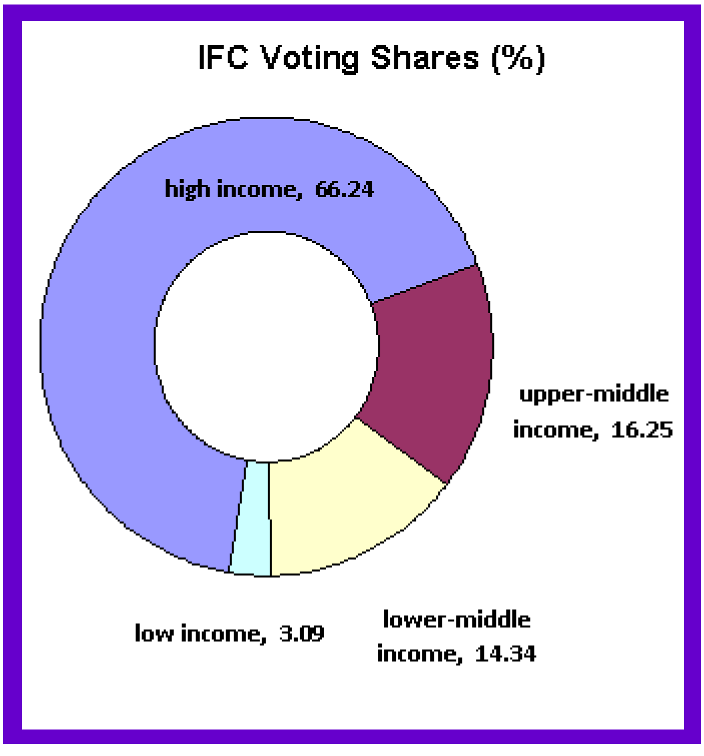
The International Financial Corporation is the private-sector arm of the World Bank Group. Voting power at the IFC is supposed to broadly reflect countries' IBRD shareholdings, but historically the IFC has been even more heavily dominated by wealthy countries. Reforms have been implemented through an increase in basic votes to all shareholders and an optional, additional contribution to the IFC's capital.

The Bank's claims: Developed countries' share of the vote is said to have fallen from 66.59 per cent to 60.52 per cent, with developing and transition countries' share rising from 33.41 per cent to 39.48 per cent.

A closer look: Once again, however, the use of the 'developing and transition' country category is misleading. High-income countries have given up less than 5 per cent of their voting share – falling from over 70 per cent to 66.24 per cent. Middle-income countries will gain just over 3 per cent, putting them on 30.59 per cent. The 0.71 per cent increase for low-income countries will give them a share of only 3.09 per cent. The 46 rich countries will maintain two thirds of voting power at the IFC, leaving just one third for 136 poorer countries. This vast under-representation is particularly inappropriate given that investing in the poorest countries and 'frontier' regions is a priority for the IFC.

The biggest winners: China (1.28%), Brazil (0.62%), Saudi Arabia (0.56%), Russia (0.43%), and India (0.43%). None of the ten countries gaining most is a low-income country; four of the top ten (Saudi Arabia, South Korea, Kuwait and Japan) are high-income countries.

The biggest losers: US (-2.63%), Germany (-0.58%), France (-0.54%), UK (-0.54%), and Italy (-0.36%).



Weak trajectory for future reform

No further reform is on the table for the next five years, so voting shares will stagnate at these inequitable levels until at least 2015. There are plans to develop a formula to calculate voting shares in IBRD and IDA, which would take into account countries' economic weight, donations to IDA, and contributions to the Bank's 'development mission'. However, the latest reforms have set a worrying precedent. They placed a heavy emphasis on economic weight (75 per cent), followed by countries' contributions to IDA (20 per cent) - both criteria which favour rich countries. The development element was accorded a derisory five per cent, and was also partly defined by IDA contributions.

Nor does the Bank show any sign of adopting robust definitions of developed or developing and transition countries (DTCs). On the contrary, it says that, "Changing the DTC definition before reaching equitable voting power would complicate measuring the achievement of that important objective."

At the current rate of change, it will be decades before developing countries, home to the vast majority of the world's population, even have parity of vote with developed nations. This pitiful path condemns the World Bank to illegitimacy and ineffectiveness as an institution mandated to combat poverty.

An alternative path

Civil society groups call for equal voting shares for developed and developing countries in the short term. This should be accompanied by a timetable for rapid further reforms, based on a formula that reflects democratic principles and has at its heart the Bank's development mandate. Also vital is an end to the outdated practice of some countries having permanent seats on the Bank's board, where European countries are particularly over-represented. These steps would put the World Bank on a far stronger footing to support development.

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[1] The World Bank's list of countries grouped by 2008 income, and thresholds for low-, middle-, or high-income countries can be found at: http://tinyurl.com/wbclassifications.

[2] Antigua and Barbuda, Bahamas, Bahrain, Barbados, Brunei, Croatia, Equatorial Guinea, Hungary, Iceland, Kuwait, Oman, Quatar, San Marino, Saudi Arabia, Trinidad and Tobago, United Arab Emirates.

[3] Bahamas, Croatia, Cyprus, Czech Republic, Equatorial Guinea, Hungary, Israel, South Korea, Oman, Saudi Arabia, Singapore, Slovak Republic, Trinidad and Tobago.

[4] Angola, Benin, Botswana, Ghana, Guinea, Kenya, Madagascar, Mauritius, Somalia, South Africa, Uganda.

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