Discussion paper on reform of World Bank governance structures
Jeff Powell, Bretton Woods Project, April 2007

Fortunately, Bank staff have done most of our work for us on the minutiae of the implementation and implications involved in the whole panoply of reforms that are on the table (see 'options paper' link below).

To abbreviate the discussion, we've divided the debate into what should be (for UK NGOs) 'no-brainers' and issues where 'discussion is needed'. *At the end of each reform, we categorise the options according to the degree of political/legal difficulty which the reforms will face at the Bank.* We end the discussion paper with a brief discussion of what issues would be most strategic to highlight. The first annex gives a brief summary of the differences between the IDA and IBRD governance structures. Further reading suggestions and key links at the end.

1. No-brainers

a. **Leadership selection:** Transparent and merit-based, with emphasis on experience with development issues in a developing country context.

   Couple of small sticking points in the details: Should candidates have to publicly declare their candidacy? This is what the board tripped over when they reviewed the Bank-Fund paper on the issue in 2001. There are genuine concerns that a beauty contest held in the full glare of the media might scare off some qualified candidates. Secondly, should the board vote (possibly by secret ballot) on the candidates?

   Within the competence of Bank management and the executive board.

b. **Transparency:** We've gotten the agendas and the minutes of board meetings at the Bank. They're helpful but lack any detail. Now we need the transcripts. More generally, the Bank should adopt in its disclosure policy those principles recommended by the Global Transparency Initiative – namely, presumption of disclosure, strictly limited exemptions, independent appeals mechanism (see link below for GTI IFI transparency charter).

   Within the competence of Bank management and the executive board.

c. **President and board accountability:** Systems should be put in place for the evaluation of the performance of the president by the executive board, and of the executive board by the board of governors. This would mirror the recommendations of the panel on IMF board accountability (see link below).

   Within the competence of Bank management and the executive board.

d. **Increase support to and strengthen EDs:** Provide EDs from large, developing country groupings with an additional alternate or additional senior advisor(s). (nb. An analytical trust fund supported by DFID was created in 2004 to allow African EDs at the Bank and Fund to commission a programme of research[1].)

   Increasing alternate EDs requires an amendment to the articles, while increasing advisors (or research trust funds etc.) only requires additional financial resources.

e. **Staff diversity:** especially at senior levels

   Within the competence of Bank management and the executive board.

f. **Fit-for-purpose governance structures:** The reform of the Banks' governance structures (IBRD and IDA) should be de-linked from reform of the IMF's governance structures. This

[1] http://brettonwoodsproject.org/art.shtml?x=538509

has already been recognised in the options paper – "the Bank has an independent need to deal with the voice issue and the considerations that it needs to take into account are different from the Fund" (p. 4). The Bank's legal department has also made clear that IMF reforms "do not have direct legal consequences for the Bank".

Similarly, reform of IBRD governance structures should be separate from that of IDA. This is already partially the case (see Annex 1). We should recognise that splitting IBRD and IDA posts would represent increased burden both financially and in human resource terms. Do we want separate governors/directors/presidents? Who would bear the costs?

Requires an amendment to the articles of agreement. Political difficulty depends on the accompanying structural changes that this implies.

g. **Increase basic votes and/or membership shares:** Return the basic vote to its original levels of 10.78% (currently at 2.8%). This would increase the total votes of developing countries at the IBRD from 40% to just over 43%.

There will be movement on this. Options examined include doubling the IBRD 'membership share'[2] to 500 and adding 250 'basic votes'[3] – effectively this 'tripling' would reduce high income countries share from 60% to 57.79%.

Any changes should be accompanied at the IBRD with the introduction of a mechanism to automatically maintain the ration of basic votes in future quota increases (this is already the case at IDA).

Increasing basic votes requires an amendment to the articles of agreement. Increasing membership shares requires approval of the Governors.

h. **Cap the size of constituencies:** This reform is largely meaningless unless accompanied by one of a/ an increase in the number of chairs (which the US will never allow, see footnote in Annex 1, and might not be desirable in any case); b/ Europe giving up at least one of its chairs; or c/ at least one of the appointed or single country chairs giving up its right to its own chair (see discussion of these options below).

In the 'open statement to democratise the World Bank and IMF', signed by over 100 CSOs in 2003, we said that there should "be no more than 10 countries per constituency, and rotation of Board members among different countries in the constituency".

Countries may decide to switch the constituency they are in at the bi-annual election of executive directors, with the unanimous approval of the members of the constituency they wish to join.

i. **Giving up UK appointed chair:** While for reasons of self-interest it seems unlikely that the UK would give up its appointed chair at the IMF, perhaps there is a greater chance that the UK would take a principled stance where a development institution is concerned? Be sure that HMG would face heavy pressure from the French and Germans to set no such precedent.

In the UK NGO open statement (link below) on IMF reform, we agreed: "We demand an end to the system of board chairs automatically going to the five most powerful countries, and that the United Kingdom should lead efforts to promote this by declaring its willingness to abandon its appointed chair in favour of elections by the board of governors to determine all board seats. Consensus-based multilateralism necessitates removing the privileges accorded to a few members at the expense of the many."

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[2] 'Membership shares' were introduced in the 1979 General Capital Increase to avoid a reduction in the aggregate voting power of developing countries. They have no paid-in portion and are entirely callable – but this does mean that they represent a liability for members who subscribe to them.

[3] 'Basic votes' unlike 'membership shares' do not represent increased capital – therefore, they create no liabilities on members.

Requires an amendment to the articles of agreement.

j. **End the US veto:** Nice idea, good luck.

Requires an amendment to the articles of agreement, or the US to agree to a quota formula which reduces its shareholding.

2. Discussion needed

a. **Double majority voting:** At the IMF, BWP and OWT have put forward a proposal that both simple majority (50% + 1) and super majority (66%, 85%, etc.) decisions require majority backing both by economically weighted votes and number of countries (see link below). This proposal was previously advanced by the Germans[4], has had a luke-warm response from the UK and the French, and interestingly, has recently been backed by the Chinese.

The Bank's options paper mistakenly highlights the difficulty of reaching agreement on the legal definitions of a new category of members (assuming that double majority would imply majorities of both 'developed' and 'developing' countries, or in the Bank's language part I and part II countries – another - though not necessary - way of formulating this).

More important, is to determine whether or not double majority (and other structural reforms proposed below) would affect the Bank's AAA credit rating, ie. institutional investors will think that the 'madmen are running the asylum' (their words, not mine!). BWP is seeking private sector counsel on the issue.

Requires an amendment to the articles of agreement.

b. **Fit-for-purpose quota formulae:** At the IMF, the quota formula is used to determine contributions, access levels and decision-making power. At the IBRD, the formula[5] is used to determine contributions[6] and decision-making power. At IDA, the formula[7] is used to determine decision-making power only.

Therefore, unlike the IMF, where arguably three formula are needed, perhaps only two are needed at the Bank. The formula to determine contribution would rightly emphasis GDP/capita (based on the principle that the rich should pay more). The formula to determine decision-making power should rightly emphasise democracy – see David Woodward's proposals (see link below) to use weighted population figures.

c. **Selective capital increase:** Unlike a general capital increase, which is used if the Bank's capital stock is considered insufficient, a selected capital increase can allow the shareholdings of certain under-represented countries to be increased at the expense of others.

It is likely that, following on the heels of the IMF's selective quota increase, that there will be pressure for the Bank to offer a selective capital increase to countries which are 'under-represented'. 'Under-represented' here means one of two things – either the country is

[4] "Enhancing the voice of developing countries in the World Bank", GTZ, July 2004. The Germans proposed adopting double majority for a 'pilot phase' of two years on operational matters, after which the approach might be finalised with an amendment to the Articles.

[5] When IBRD was established they put forward the idea of a unique quota formula. But the horse-trading over the IMF quota formula was so fierce they gave up. So they used the IMF formula. But over time, the actual shareholding has deviated from the IMF quota allocation due to both developed and developing countries not taking up quota increases.

[6] Keep in mind that contributions refers to the paid-in portion of the capital (see Annex 1) which acts as a guarantee for IBRD lending. The actual capital comes from re-flows.

[7] IDA shareholding deviates even further from the IMF quota formula – see Annex 1.

under-represented at the Bank relative to its quota share at the Fund; or the country is under-represented at the Bank relative to its share in the global economy[8].

Other than under-represented middle income countries, there could be a push to give a selective capital increase to poor countries (who, actually, are 'over-represented' according to the current quota formulas). However, this would be tricky since this is about the last thing these countries would like to spend money on. This could be resolved by either a/ setting up a donor trust fund to pay for their capital increases (hence a role for UK money), or b/ setting the price of their shares at a nominal rate (this has been done before). All of this seems very much a plaster, if point (b) above is not addressed.

Does not require an amendment to the articles of agreement, but would require 'non-subscribing members to agree not to exercise their pre-emptive rights'[9] Political difficulty in deciding who gets how much of an increase.

d. **Giving up European chairs:** Since the US will veto any increase in board size, the obvious solution to the horribly inequitable representation at the board is to reduce the number of Europeans at the table[10]. The political unpopularity of UK civil society calling for this[11] would suggest that we should push for 1(i) above instead, or stick to generalities about 'reduction' or 'consolidation' in European representation, as we did with the IMF statement, where, under 'additional measures' we said: "reduce the number of European seats on the boards".

Political posturing

Clearly we don't want to advocate over a dozen reforms. So which do we prioritise?

Pending the resolution of the Wolfowitz fracas, we will need to keep the pressure on over the leadership selection issue. Generally transparency is better dealt with during reviews of the disclosure policy, but pushing on board transparency and accountability usually gets overlooked, so it would be useful to push on this here.

While double majority voting made political sense at the IMF, the imperative to give precedence to democracy over economics at the development institution of the BWI twins seems stronger. However, this doesn't change the political reality that it is impossible that the Americans would agree to a formula based on purely democratic principles (especially if this is in combination with progress on the leadership selection issue), and therefore, a double majority might be more likely to get past[12]. Perhaps then, as we did with the IMF, we can argue for a medium-term practical solution of double majority, moving towards the longer-term resolution of democratic representation. Though it would perhaps in any case be useful to have David Woodward adapt some of the excellent work he did on the IMF quota formula for applicability to the Bank.

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[8] This is measured by GNI/capita. Of course, there is a debate over whether this should be measured in PPP (Purchasing Power Parity) terms, but let's not even get into that here!

[9] This would mean that under-represented rich countries have to agree not to push their way to the front of the queue. Some European countries have refused to agree to this at the Fund so far.

[10] At any given time, there can be as few as 7 or as many as 9 of the 24 seats at the board filled by Europeans.

[11] Dutch, Belgian, Scandinavian, Swiss colleagues all get anxious when we raise this.

[12] The US has, for example, accepted double majority voting at the IADB and AfDB.

Annex 1: IBRD (the 'Bank') and IDA (the 'Association') governance structures

I. IBRD

Governors: Governors and alternates serve for five year terms and may be reappointed. Board of Governors shall select one governor as chair.

Directors: Twenty-four executive directors[13], five appointed by the five members having largest number of shares. Remainder elected by the board of governors. Elections will take place every two years[14]. Directors may be reappointed. Rules for rotating the director post in elected constituencies are decided by each constituency. (nb. no provisions for evaluation of performance)

President: The executive directors select a president, who will cease to hold office when the directors decide. (nb. no provisions for evaluation of performance)

Advisory Council: Not less than 7 wise persons, broadly representative, to advise the Bank on general matters. Councillors shall serve for two years and may be reappointed. (nb. never enacted)

Location: The principal office of the Bank shall be located in the territory of the member holding the greatest number of shares.

Votes:

250 **basic votes** plus one additional vote for each share of stock held. High-income countries hold 60% of votes; low and middle income countries hold 40% (two African chairs hold 5.31%).

Subscription votes (20% paid-in; 80% subject to call). Due to repeated selective capital increases, the shareholdings are out of line with those at the IMF (the formula for share allocation at the IMF is supposed to guide IBRD allocation). Most developing countries (virtually every African country) are *over-represented* at IBRD according to the IMF quota formula.

Amendments to the articles: three-fifths of the members having eighty-five percent of the total voting power

[13] The articles only allow for 20 directors. A vote must be held to maintain the additional four directors for which a super-majority is required, ie. US holds a veto.
[14] The last election of directors took place in Singapore, September 2006.

II. IDA

Posts: Governors and alternates / Chair of the board of governors / Executive directors and alternates / President of the Bank shall *ex officio* serve in the same positions of the Association.

Location: Principal office of the Association shall be the principal office of the Bank.

Votes:

Originally, 500 **basic votes**[15] plus one vote / $5000 of its initial subscription ('subscription votes'). Through successive replenishments there are now a possible 39,700 basic votes per member (for each member who has subscribed to all allocations made).

After IDA replenishments, **subscription votes** are re-allocated based on three principles:

1)votes of rich countries (so-called 'Part 1') should correspond to its share of total cumulative Part 1 resources contributed to IDA;
2) the relative voting power of the Part II countries as a group should be maintained by conferring subscription votes on part II members at a nominal cost (currently one vote for each $25 subscribed);
3) membership votes (basic votes) should be increased to preserve the voting share of the smaller countries.

When any additional subscription is authorized, each member shall be given an opportunity to subscribe, under such conditions as shall be reasonably determined by the Association, an amount which will enable it to maintain its relative voting power, but no member shall be obligated to subscribe. (Article III, section 1)

Amendments to the articles: three-fifths of the members having four-fifths of the total voting power

[insert table here giving sample countries and their quota/shareholding at IMF, IBRD and IDA]

[15] Basic votes are maintained at the original ratio of 0.25% of the total potential subscription votes.

Related resources

World Bank options paper on voice and representation (April 2007)
http://siteresources.worldbank.org/DEVCOMMINT/Documentation/21289628/DC2007-0009(E)-Voice-1.pdf

Open CSO statement on steps to democratise the World Bank and IMF (April 2003)
http://brettonwoodsproject.org/art.shtml?x=16202

UK NGO open statement on governance reform at the IMF (July 2006)
http://brettonwoodsproject.org/art.shtml?x=540737

Joint WB-IMF report on the process for selection of the president and MD
http://www.imf.org/external/spring/2001/imfc/select.htm

Global Transparency Initiative charter for IFI transparency
http://www.ifitransparency.org/activities.shtml?x=44474&als[select]=44474

High-level panel on IMF board accountability, New Rules for Global Finance
http://www.new-rules.org/imfbdaccountability.htm

Bridging the democratic deficit: Double majority decision-making at the IMF
http://brettonwoodsproject.org/art.shtml?x=549743

IMF voting reform: need, opportunity and options, David Woodward
http://www.g24.org/wood0307.pdf

IBRD articles of agreement
http://siteresources.worldbank.org/EXTABOUTUS/Resources/ibrd-articlesofagreement.pdf

IDA articles of agreement
http://siteresources.worldbank.org/IDA/Resources/ida-articlesofagreement.pdf