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**ENHANCING VOICE AND PARTICIPATION OF DEVELOPING AND TRANSITION
COUNTRIES IN THE WORLD BANK GROUP: OPTIONS FOR REFORM**

Attached for the October 12, 2008, Development Committee Meeting is a background report entitled "Enhancing Voice and Participation of Developing and Transition Countries in the World Bank Group: Options for Reform," prepared by the staff of the World Bank.

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Enhancing Voice and Participation of Developing and Transition Countries in the World Bank Group: Options for Reform

I. INTRODUCTION

1. The 2002 Monterrey Consensus encouraged the World Bank and the International Monetary Fund (“the Fund”) “to continue to enhance participation of all developing countries and countries with economies in transition (DTC) in their decision making and thereby to strengthen the international dialogue and the work of these institutions as they address the development needs and concerns of these countries”.¹ Since Monterrey, the Bank has continued its progress on aspects of enhanced Voice and Participation for its DTC members. Initiatives to strengthen capacity for DTC participation in decision-making have included training of counterpart staff under the Voice Secondment Program, and expanding support for the largest, Sub-Saharan African Board constituencies with additional Senior Advisors and Advisors. Bank Group responsiveness to DTC views on development has been heightened through increased diversity and decentralization of staff and management, deepened country ownership and expanded communications and voice of local stakeholders.

2. Advances on structural elements of reform, however, have awaited the results from discussions on Quota and Voice Reform at the Fund. With agreement reached in Spring 2008 at the Fund, Bank discussions on structural Voice and Participation issues can now accelerate towards consensus on a package of specific reforms.

3. Reflecting this new context for enhancing Voice and Participation in the World Bank Group, the Development Committee (DC) in April 2008 “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.” The DC Communiqué seeks concrete options from the Bank’s Board by the 2008 Annual Meetings, with a view to reaching consensus on a comprehensive package by the 2009 Spring Meeting. This paper responds to the request for concrete options from the Board.

4. The 2008 DC Communiqué also called for a process that is inclusive and consultative among Bank shareholders. In that light, the Bank’s Executive Directors have exchanged views on all aspects of this topic at the May 12, June 11, July 16 and

¹ “A first priority is to find pragmatic and innovative ways to further enhance the effective participation of developing countries and countries with economies in transition in international dialogues and decision-making processes.” Quoted from “Monterrey Consensus on Financing for Development”, International Conference on Financing for Development, Monterrey, Mexico, March 18-22, 2002.

September 3 meetings of the Board's Committee of Governance and Executive Directors' Administrative Matters (COGAM) and at the September 9 meeting of the Committee of the Whole (CoW). These discussions were facilitated by the background materials and papers prepared by Management, including the extensive tables and simulations made available electronically to the Executive Directors. The DC Deputies discussed Voice reform at the Bank Group at a special meeting on September 11 in Mexico City, and a revised draft DC paper was considered by the Executive Directors in a Committee of the Whole discussion on October 2.

5. This Options Paper describes a set of core objectives, guiding principles and principal dimensions (Section II), and outlines a range of available options for Voice reform at the Bank. These options are grouped into three areas: Voting Power and Shareholding, including IBRD options, IDA and IFC options and voting majorities (Section III); strengthening of Board representation and effectiveness (Section IV); and enhancing Voice and Representation in the work of the World Bank Group (Section V). Concrete options for a reform package are summarized in Section VI.

II. OBJECTIVES OF VOICE REFORM

6. The ultimate goal of Voice reform is to increase the organization's responsiveness and ability to meet and support the needs of its shareholders. Concerns by Bank shareholders and other stakeholders about inequities in representation at the Board and in the voting power of shareholders challenge the appropriateness and fairness of the World Bank Group's most senior governance bodies. The Bank's legitimacy, credibility and accountability could suffer without tangible and timely progress on the Voice and Participation agenda. That progress becomes all the more relevant as the significant changes in the global political economy highlight the importance of modernizing the Bank Group's overall institutional governance arrangements.

7. Voice reform also has institutional benefits for the World Bank Group. Beyond its financial strength, the World Bank Group has a number of strategic assets at its disposal. These include its extensive global reach and country-based development platform, the depth and quality of its knowledge databases, and the professional expertise of its staff. Two other important strategic assets of the Bank Group are central to its effectiveness and legitimacy: (i) its brand name and associated convening power, including its ability to raise public attention on important development issues; and (ii) its role within the wider development community in helping to galvanize support for broad development initiatives. The Bank would be better placed to utilize its strategic assets in pursuit of its development mandate if its legitimacy, credibility and accountability were enhanced through appropriate representation.

8. Quota and Voice reform have also been on the Fund's agenda since Monterrey, reflecting similar concerns. Yet, the Bank and the Fund have distinctive if related mandates. The Bank Group provides financial and technical assistance to low-income countries and emerging economies to develop an environment for investment, jobs and

sustainable growth that will help promote economic growth and reduce poverty. The Fund promotes international monetary cooperation, exchange stability, and orderly exchange arrangements; fosters economic growth and high levels of employment; and provides temporary financial assistance to countries to help ease balance of payments adjustment.

9. **Two core objectives** for enhancing Voice and Participation at the World Bank Group are particularly important:

- **First, to ensure equitable participation of all developing countries and countries with economies in transition in the Bank's governance.** This involves two goals of equal importance, namely:
 - To continue to make progress in the overall adjustment of voting rights and shareholding in light of members' evolving economic weight in the global economy and responsibilities for the development mandate of the Bank; and
 - To strengthen Voice and Participation for countries, whose weight in the global economy may be small, but for whom the Bank plays an important financing and advisory role.
- **Second, to enhance legitimacy, credibility and accountability in Bank Group operations,** which involves the following set of goals:
 - To broaden representation of DTC nationals in the staff and at all levels of management in the World Bank Group;
 - To deepen ownership of all members in the Bank Group's strategic agenda, projects and programs, including at the country level; and
 - To strengthen the dialogue with stakeholders, particularly in DTCs, on the Bank Group's activities.

10. Making progress on these core objectives for Voice and Participation will enhance the Bank Group's overall development effectiveness. It will help reinforce the Bank Group's strategic assets, empower minority shareholders in the Bank, and strengthen the support and ownership of decisions taken by the Board. Especially in a development cooperative such as the Bank, consensus and compromise are needed to produce effective development responses to collective challenges.

11. A set of **Guiding Principles for Voice reform at the World Bank Group** is emerging from the discussions among Bank shareholders on Voice and Participation over time. The main guiding principles could embrace the following concepts:

- Greater Voice and Participation for the group of developing and transition countries is a fundamental principle of the reform for all shareholders. The aim is to make the Bank a more equitable, representative and transparent multilateral institution, further strengthening its legitimacy, credibility and accountability.

- The Fund and the Bank have different missions. Voice reform in the Bank should reinforce the Bank's specific development mandate and role.
- The current quota and voice reforms at the Fund represent a significant step forward in the context of Fund governance. These reforms are relevant as the Bank structures its own Voice reforms.
- Voice reforms should enhance the relative voting power of DTC members. In protecting the voting power of smaller members, a decline in voting power of other DTC members should be avoided.
- Voice and Participation should be considered across the institutions of the World Bank Group.
- Voice reforms should reflect members' evolving economic weight in the global economy and also take into account members' contributions to the World Bank Group and overall ODA contributions to reflect the Bank's development mandate.
- Measures relating to Voice reform should enhance the effectiveness of the Bank's governance processes, with careful consideration of cost neutrality.
- An expansive view of Voice and Participation reforms should be taken to include and recognize the Bank Group's important achievements to date on staff diversity, decentralization, country ownership, strengthening dialogue with DTC stakeholders and Board effectiveness.
- The outcome of the discussions on Voice and Participation at the Bank should be an agreed package of reforms, containing various elements.
- The initiatives to strengthen Voice and Participation across the Bank Group are part of a continuing process that could be implemented in phases; the current goal is to establish a solid platform upon which future efforts can be built.
- An inclusive and transparent consultation process that involves all members is essential.
- Achieving timely outcomes is important. The goal has become achieving consensus on a comprehensive package of options at the time of the 2008 Annual Meetings, to be implemented over time.

12. In view of the objectives and guiding principles raised by shareholders and summarized here, **three dimensions of Voice reform at the Bank** emerge. These comprise the following:

- Voice as Voting Power and Shareholding. This involves **raising DTC voting**

power and shareholding in the World Bank Group.² While ‘Voice’ is most directly represented by members’ voting rights, these rights are linked to members’ shareholding through the different voting right systems that apply to each institution.

- Voice as Effective Representation at the Board. This involves **strengthening DTC representation at the Board**, possibly through composition of Board seats and constituencies, and other measures to enhance the Board’s overall effectiveness.
- Voice as Responsiveness to DTC Views on Development. This involves **enhancing Voice and Participation in Bank Group work** such as through: increasing representation of DTC nationals among Bank staff; reviewing the selection process for the President; expanding field presence and decentralization of Bank staff; increasing access of stakeholders to information on Bank operations; and deepening focus on the country-based development model.

13. Designing and evaluating options to address these three dimensions of Voice reform for the World Bank Group requires the classification of member countries as “developed”, “developing” or “in transition”. There is no uniform classification for the Bank Group, and different classifications are used for different purposes and in different contexts. For purposes of voice reform discussions since the time of the Monterrey Consensus, IBRD and IFC members listed as middle or low-income countries in the Bank’s World Development Indicators 2003 (WDI) have been counted as DTCs and members listed as high-income countries in the WDI have been counted as developed countries. By comparison, the Fund uses country classifications derived from its World Economic Outlook (WEO), classifying members into ‘Advanced Economies’ and ‘Developing and Emerging Economies’. The Developing and Emerging Economies group is the comparable group for DTC members in the World Bank Group. For purposes of voting power, IDA Part II members are counted as DTC members, as are MIGA Category Two countries. There is a broad agreement that country classifications for purposes of Voice reform at the Bank could be reviewed further in the future.

III. REALIGNMENT OF VOTING POWER AND SHAREHOLDING

14. **Current Voting Power in the World Bank Group.** As shown in Table 1, the aggregate, actual voting power of DTC members, using the WEO classification, currently stands at 42.6% at IBRD and 33.3% at IFC, 41.1% at IDA (Part II), and 50.0% at MIGA (Category Two). At the Fund, aggregate voting power of DTC members is projected to increase by 2.7%, from 39.4% before the Fund’s voice reforms to 42.1% after

² The World Bank Group consists of five institutions: IBRD, IDA, IFC, MIGA and the International Centre for the Settlement of Investment Disputes (ICSID). ICSID is an autonomous international institution established under the Convention on the Settlement of Investment Disputes between States and Nationals of Other States. Each member state to the Convention is equally represented in the institution and there is no shareholding.

implementation of these reforms.

Table 1: Voting Power at the World Bank Group and the IMF

| Members | World Bank Group (before reforms) | | | | IMF | |
|---------------------|-----------------------------------|-------|-----------------|------------|--------------------|-----------------|
| | IBRD | IFC | IDA (actual) | MIGA | before reform | after reform |
| | WEO classification | | Part I/ II | Categ. 1/2 | WEO classification | |
| DTCs | 42.6% | 33.3% | 41.1% | 50.0% | 39.4% | 42.1% |
| Developed Countries | 57.4% | 66.7% | 58.9% | 50.0% | 60.6% | 57.9% |
| | WDI classification | | | | | |
| DTCs | 40.0% | 31.8% | | | | |
| Developed Countries | 60.0% | 68.2% | | | | |

A. IBRD Options

15. Voting power in IBRD is made up of Basic Votes and Share Votes (one vote for each share of stock held). Consequently, options to increase DTC members' voting power in IBRD relate to **increases in Basic Votes and a realignment of members' shareholdings**.

1. Increasing IBRD Basic Votes

16. Basic Votes were introduced at the founding of the Bank and the Fund to maintain relative voting power for smaller members. The number of Basic Votes at IBRD has been fixed since 1944 at 250 per member in the Bank's Articles of Agreement. In 1979, each member was also allowed to subscribe to an additional 250 shares of IBRD stock (Membership Shares), simulating the effect of an increase in Basic Votes. (Membership Shares required no paid-in capital, but each subscribing member took on a contingent callable capital liability of roughly US\$30 million.)

17. At present, Basic Votes represent 2.86% of total IBRD voting power, down from 10.78% at the time of the Bank's founding in 1944. Currently, 2.58% of IBRD Share Votes derive from the Membership Shares (almost all members subscribed to these Membership Shares). At the Fund, prior to the current reforms, the 250 Basic Votes per member represented 1.96% of total votes. Under the current Fund reforms, Basic Votes will be fixed as a percentage of total votes, not as a specified number. The percentage of IMF Basic Votes will be 5.502%, which is the percentage that 750 Basic Votes (a tripling) would reflect in total IMF Votes.

18. An increase in Basic Votes for all members at the Bank would strengthen the relative voting power of members with a smaller shareholding, many of which are part of the DTC group. Basic Votes are available to members at no cost, and increasing the

number of Basic Votes would have no impact on IBRD's capitalization. An amendment to the Bank's Articles³ for a one-time increase in the number of Basic Votes would mean that the proportion of Basic Votes to total votes may fall again with any future increases in IBRD capital. An amendment to the Articles that sets Basic Votes at a percentage of total votes would prevent future reductions in the proportion of voting power that Basic Votes represent.

19. **There is a consensus at the Bank that the level of Basic Votes should be increased and that the increase should take the form of specifying Basic Votes as a percentage of total votes, as in the Fund.** Several specific scenarios regarding the level of Basic Votes could be considered.

- (a) **“Doubling” (5.55% of total votes):** Doubling Basic Votes to 500 per member would result in a percentage of 5.55% of total votes, based on the current number of Share Votes. This would be 0.05% higher than the percentage level agreed in the Fund's quota and voice reform package.
- (b) **“Tripling” (8.10% of total votes):** Tripling Basic Votes to 750 per member would result in a percentage of 8.10%, based on the current number of Share Votes.
- (c) **“Original Level” (10.78% of total votes):** Re-setting Basic Votes at the same proportion as agreed in 1944 would result in a percentage of 10.78%.

Table 2 summarizes these scenarios and their impact on DTC voting power at IBRD.

20. Increasing Basic Votes would raise the voting power of the smaller members of IBRD, i.e., those holding a small share of IBRD capital, most of which are members of the DTC group. As a result, some of the larger members would see a reduction in their individual voting power; a number of these shareholders are also members of the DTC group. Such dilution of voting power could be offset through subscription to unallocated shares, to the extent these are available, as mentioned in paragraph 30.

³ Amendment of the Bank's Articles is a three-step process, where approval by the Board and Board of Governors must be followed by acceptance by three-fifths of the members holding 85% of the total voting power.

Table 2: Impact of Increasing IBRD Basic Votes on DTC Voting Power

| | Current Status | Setting Basic Votes as % of Total Votes | | |
|--------------------------------------|----------------|---|--------------------|-------------------------|
| | | 5.55% ("doubling") | 8.10% ("tripling") | 10.78% - Original Level |
| Number of Basic Votes per member | 250 | 500 | 750 | 1028 |
| DTC Voting Power - WEO | 42.6% | 43.8% | 44.9% | 46.1% |
| With allocation of shares (para. 30) | | 44.0% | | |
| DTC Voting Power - WDI | 40.0% | 41.2% | 42.3% | 43.4% |
| With allocation of shares (para. 30) | | 41.4% | | |

2. Realigning IBRD Shareholding

21. Beyond an increase in Basic Votes, **voting power for DTC members could be raised through adjustments to their underlying subscriptions to the Bank's capital stock**, in the context of an overall realignment of IBRD shareholding. The reform package agreed at the Fund aimed at enhanced representation of dynamic countries whose weight in the global economy has increased, through a new quota formula (that realigns members' calculated quotas) and a second round of *ad hoc* quota increases (that realigns members' actual quotas). (A first round of *ad hoc* quota increases in 2006 was approved for four dynamic economies that were most clearly underrepresented.) In the Bank context, it is important to consider that IBRD is adequately capitalized so that strengthening its financial position may not be an objective in a realignment of shareholding.

22. Three mechanisms for realigning IBRD shareholding are described below: selective capital increase; share exchange; and allocation of unallocated shares. In a package of Voice reforms, these options could be combined.

a. Selective Capital Increase

23. The Bank has had two types of capital stock increases in the past: (a) a general capital increase (GCI); and (b) a special or selective capital increase (SCI). Increases in authorized capital stock require a decision by a 75% majority of the Bank's Board of Governors, with each member also having a pre-emptive right to subscribe to a proportionate share of the increase.

24. A GCI is the traditional mechanism to augment the Bank's capital when necessary to strengthen its financial position, enhance its borrowing capacity and ensure funding of its growing lending and future operations. In a GCI, shares are allocated *pro rata* among

all members. The Bank has had three GCI's over the past 60 years. No need for a GCI has been identified at this time, nor is there likely to be such a need in the near future.

25. An SCI has been used by the Bank to realign members' shareholdings in the past. This is the simplest option to realign members' shareholdings as the procedures for an SCI are well-known and relatively straightforward. In an SCI, shares are allocated only to specified members, not on a *pro rata* basis. An increase in the total number of shares (and Share Votes) would lead to a proportional dilution of voting power for all members not participating in the SCI. Agreement of some members not to exercise their pre-emptive rights allows other members to increase their relative share of the Bank's capital, and some SCIs have been conditioned by the Governors on such an agreement.

26. An up-front and small SCI, limited in size and scope, could be one option to realign shareholding at IBRD. Another option could be to first undertake the proposed review of IBRD shareholding (sub-section e below), developing proposals that address DTC voice in the context of an overall SCI and realignment. In either case, since IBRD is currently considered adequately capitalized, an SCI at this juncture could be made entirely callable, requiring payment by members to IBRD only in the event of a future call by the Bank.

b. Share Exchange

27. A Share Exchange would be another mechanism to create new shares for subscription and realignment, as an alternative to or in parallel with an SCI. Under a Share Exchange, willing developed members would release some of their IBRD shares, for allocation to other members that are considered to be under-represented and are interested in increasing their shareholding in IBRD. A Share Exchange would require that some members agree to reduce their percentage of IBRD shareholding by voluntarily transferring shares to the Bank. With the agreement of such members to create an adequate pool of transferred shares, the Bank's Board of Governors would reallocate these transferred shares (along with available unallocated shares) to under-represented members. To illustrate, for each 1,000 shares transferred to the pool, the contributing member's voting power would be reduced by 0.06%; in the aggregate, reallocating a pool of 15,000 shares to DTC members would increase DTC voting power by 0.93%.

28. For purposes of the Share Exchange, only shares that were issued for subscription on a fully callable basis (without any paid-in portion) would be eligible for transfer and for subscription so as to avoid potential accounting and financial reporting issues. In a Share Exchange, the total number of subscribed IBRD shares would remain largely unchanged (except to the extent that unallocated shares are also allocated at the same time). Dilution of the voting power of those members that are not participating in a Share Exchange would therefore be minimized. Pre-emptive rights do not apply in a Share Exchange as there is no capital increase.

c. Allocation of Unallocated Shares

29. At present, IBRD has 8,375 unallocated shares, about 0.5% of IBRD's total authorized shares (1.58 million). The Board of Governors normally allocates these shares for initial subscriptions by new members; these shares could also be allocated by the Board of Governors to realign current members' shareholdings. About 1,100 shares are likely to be required for pending membership applications. The remaining 7,275 shares could be used for realignment, as a freestanding allocation or in combination with an SCI or Share Exchange.

30. One option in Voice reforms could be to use unallocated shares, on an exceptional basis, to address the decline in voting power of larger DTC members resulting from an increase in Basic Votes (paragraph 20). The effect of this initial realignment of shareholding would be considered in any future review and realignment of shareholding (sub-section e below). For example, with a doubling of Basic Votes, fourteen to sixteen DTC members would need to subscribe to a total of 6,800 to 7,100 shares to maintain their current IBRD voting power.⁴ The combined effect of that increase in Basic Votes and the subscription of DTC members to these shares would be to increase aggregate DTC voting power in IBRD to 44.0% under the WEO classification. To maintain comparability with the increase in Basic Votes (that has no financial cost), subscriptions to these shares would, on an exceptional basis and not as a precedent, be made fully callable (without paid-in capital but with full contingent liability for them). Participating DTC members would be required to be current on their IDA subscriptions. Remaining unallocated and available shares could be made available for subscription by members representing special cases, such as countries recognized as highly generous donors to IDA's replenishments.

d. Criteria for Realigning Shareholding

31. To realign shareholding, members would need to come to a consensus on the appropriate criteria for allocation of shares to members.

32. The basic principle that has underpinned members' relative shareholdings in IBRD is their relative positions in the world economy. This principle has also served as a proxy for the ability and willingness to take up capital shares and thus to provide the institution with the necessary capital base for its operations. Historically, this basic principle has been implemented largely through a parallelism with, and reference to IMF quotas, and no Bank specific standard has been established. IMF quotas have been the basis for initial Bank shareholdings and share increases, as Bank shareholding has responded to IMF quota changes. Nevertheless, there are differences in function: IMF quotas determine the level of funding that could be available to members from the

⁴ Fourteen countries would be allocated 6,800 unallocated IBRD shares to mitigate the reduction of voting power resulting from a doubling of Basic Votes to 500 per member, using the WDI classification; using the WEO classification, sixteen countries would be allocated 7,100 shares. Subscription by members to these shares, would, however, increase IBRD's total subscribed capital with a subsequent *de minimis* dilution of voting power for some DTC members.

institution, whereas a member's holding of Bank capital stock has no impact on the level of funding from the World Bank Group.

33. The parallel IBRD share increases that kept IBRD and IMF shareholding in rough alignment through 1984 were calculated with reference to proposed and actual quota at the IMF. Since then, looking as well at the Bank's need for new capital, the Bank has been more selective in responding to IMF quota changes with IBRD share increases. As a result, a gap has developed between members' relative position as reflected by the IMF quota formula, and actual Bank shareholding. Different ratios have been discussed to reflect the relevance of that gap.⁵ In the context of the current discussion on Voice and Participation, two alternatives have been brought out for using IMF quotas as a basis for realigning shareholding at IBRD: actual IMF quota shares (i.e., post second-round adjustments), or calculated IMF quota shares.

34. In several selective capital increases in the past, shareholders' decisions on IBRD shareholding have also explicitly but selectively taken into account support for the Bank Group, specifically IDA contributions and trust funds. In the 1979 special share allocations for Japan and France, the objective was to make Japan's share allocation in IBRD comparable with its IDA burden share and to recognize France' role as a major source of official development assistance among OECD countries. In 1987, special share allocations were provided to Japan, Italy, Canada, the Netherlands and Korea to better reflect their economic positions and their support to the World Bank Group in various forms, including co-financing and access to their capital markets and contributions to development assistance. In 1996, shareholders again provided a special capital increase to Japan to recognize its large and sustained efforts in IDA. In the 1998 SCI, Brazil, Denmark, Korea, Spain, and Turkey received special capital increases in IBRD with an agreement that these members provide additional contributions to IDA and would maintain the higher share levels in future IDA replenishments.

e. IBRD Shareholding Review

35. Shareholding in the Bank has not been reviewed since 1998, pointing to the need for a new review by members. The past decade has seen dynamic changes in the world economy and in measures of members' economies, including IMF quota shares and income measures (with new poverty figures), as well as ever larger IDA replenishments with significantly increased contributions from donors. The Bank's uses and needs for capital have also been changing in light of the Bank's evolving role as a global institution.

36. The Bank's Board could undertake a review of how these and other relevant changes could be reflected in IBRD shareholding of the membership as a whole. The

⁵ In the 1998 SCI, a member was considered under-represented—and eligible to participate, subject to other criteria—if its IBRD shareholding was at least 15% below its IMF Calculated Quotas or GNP (i.e., a member whose IBRD shareholding represented 85% or less of its IMF Calculated Quota share or GNP share would be eligible for an increase in shares up to the 85% threshold). Other thresholds considered included 20% and 30%.

review could consider potential realignment for all members, developed and developing, and would provide an opportunity to address further the shareholding and voting power dimensions of Voice reform for DTC members. While maintaining the principles of relative weight in the world economy, complemented by recognition of members' contributions to the Bank Group mandate, the Board could also examine the potential for additional shareholding criteria specific to the Bank, recognizing the distinctive mandates and functions of the Bank and the IMF. Concepts that have been proposed as Bank-specific shareholding criteria for discussion include: reflecting various income measures such as GNI and GDP, at market exchange rates and based on purchasing power parity (PPP); promoting a more equitable partnership for development among members; institutionalizing the cooperative nature of the Bank, by weighing members' respective contributions to the funding and to the business of the Bank; ODA contributions; and taking into account members' levels of and need for IBRD borrowing. The review could also address the concept, advocated by some members, of moving over time towards equitable voting power between developed and developing members.

37. The IBRD shareholding review could clarify the principles, criteria and mechanisms for realignment, the likely magnitude of any realignment, and a process for regular reviews of IBRD shareholding in the future. Specifically, the work program for the shareholding review could include, in sequence:

- (i) reviewing the specific development mandate of the Bank vis-à-vis the Fund and the possible implications for a realignment of IBRD shareholding, and setting out the principles for shareholding at IBRD;
- (ii) developing various criteria and options for realignment of IBRD shareholding, considering relative weight in the world economy, members' contributions to the Bank Group mandate, and additional Bank-specific criteria suggested by shareholders (paragraph 36);
- (iii) analyzing the implications of how different options for realignment would apply for individual members; and
- (iv) structuring the available mechanisms (including the possibility of a future increase in the percentage of Basic Votes) to facilitate an adjustment of relative shareholding of members, also taking into consideration the Bank's uses and need for capital.

Many of these elements are closely related to overall developments in the multilateral arena and the global political economy, and the consequential implications for the Bank Group's overall institutional governance arrangements.

38. The above elements would constitute an intensive work program that would require frequent and close consultations with the Board, with regular progress reporting to COGAM. (A proposed Work Program is shown in the Annex to this paper.) The work program could lead to a subsequent significant realignment of IBRD shareholding for all members, and it could provide an important opportunity to further enhance the Voice of DTC members. There is recognition that some members are likely to be

categorized as being under-represented under any criteria for an eventual realignment of IBRD shareholding, reflecting their high degree of current under-representation. The shareholding review could address such extreme cases of under-representation, not handled through doubling of basic votes and initial realignment.

B. IDA and IFC Options

1. Increasing IDA Voting Power

39. IDA was created in 1960 with voting rights and a capital structure that is separate from IBRD. Voting power in IDA has two components: Membership Votes, which are allocated equally to all members, and Subscription Votes, which vary with the amount each member has subscribed. IDA's Articles also distinguish between two categories of original members: Part I members, which were mostly developed countries that contributed almost 95% of IDA's original resources, and Part II, members which were mostly developing countries.

40. Additional IDA votes are normally allocated in connection with new IDA replenishments when, most importantly, the aggregate voting share of Part II members as a group is maintained; small members are protected through allocation of additional membership votes; and, within the group of Part I countries, the shares of donors reflect their cumulative contributions to IDA. This voting rights system aims to protect the voting power of developing countries in IDA and avoid the problem IBRD faces in maintaining the relative weight of Basic Votes in total votes, while recognizing the relative efforts made by donor countries to support IDA's ongoing operations.

41. At present, however, there is a large discrepancy between the volume of IDA votes allocated ('potential' voting power) and the actual distribution of IDA voting rights, because not all Part II members have subscribed to the full amounts allocated to them over the course of IDA's successive replenishments. As of end-September 2008, Part II members as a group hold 41.1% of actual IDA voting power. Part II voting power could increase by 7.2 percentage points to 48.3% if all IDA members took up all allocated subscriptions. The aggregate subscription cost involved is equivalent to US\$18.9 million, affecting 99 Part II member countries, resulting in an average cost of less than US\$200,000 per country, covering replenishments dating back to IDA3. For IDA-only countries, the cost would be US\$7.2 million. Management's outreach and efforts are ongoing to encourage all Part II members to take up their already allocated IDA subscriptions.

42. **Raising Part II voting power in IDA by some 7 percentage points is feasible today** but relies on the willingness and ability of Part II members to take up their allocated IDA subscriptions. **Two options could be considered** in this respect, which could also be combined for maximum effectiveness:

- **Part II members would continue to be encouraged to take up and pay for**

their allocated IDA subscriptions. As mentioned above, this would increase Part II voting power by up to 7.2 percentage points.

- **Offering financial assistance to Part II members.** This could include possible donor financing, on an exceptional and voluntary basis, to provide support to Part II members with the lowest income level, such as IDA-only countries (US\$7.2 million). Equity considerations vis-à-vis members who have already subscribed from their own funds may need to be addressed, as well as ramifications for membership subscriptions in future IDA replenishments.

43. Factors underlying the gap in Part II country subscriptions to IDA that have been identified include both cost and administrative actions. Other factors identified are the respective roles played by the IDA Board and IDA Deputies' Meetings in setting policies in the context of IDA's replenishment rounds, including the participation of borrowers' representatives in replenishment discussions. A separately-selected IDA Board having different members and Board constituencies from IBRD, also mentioned, would require an amendment of IDA's Articles.

2. IFC Options

44. The possibility of including IFC reforms has been introduced in the latest round of Voice reform discussions. Thus, the implications for IFC have not been vetted by shareholders as thoroughly and over time in the way that IBRD and IDA options have been. Nevertheless, an initial assessment suggests that there is scope for enhancing DTC Voice at IFC. Basic Votes are currently specified in IFC's Articles at 250 per member, but have also diverged from their original weight of total votes, as at IBRD. Setting IFC Basic Votes at a percentage of total votes would require an amendment of IFC's Articles, by its Board of Governors (three-fifths of Governors holding 85% of voting power). Table 3 summarizes scenarios for increasing IFC Basic Votes and their impact on DTC voting power. One option could be to proceed with an IFC amendment to increase IFC Basic Votes, in conjunction with an IBRD amendment to increase IBRD Basic Votes, postponing a possible realignment of IFC shareholding to a later stage. Another option could be for the IFC Board to review the full impact of Basic Votes increases on the IFC, its members and its finances, functions and operations and then develop appropriate proposals, including on Basic Votes.

Table 3: Impact of Increasing IFC Basic Votes on DTC Voting Power

| | Current Status | Setting Basic Votes as % of Total Votes | | |
|----------------------------------|----------------|---|------------------|-------------------------|
| | | 3.65% (doubling) | 5.37% (tripling) | 12.28% (Original level) |
| Number of Basic Votes per member | 250 | 500 | 750 | 1850 |
| DTC Voting Power - WEO | 33.3% | 34.2% | 35.2% | 38.9% |
| DTC Voting Power - WDI | 31.8% | 32.7% | 33.6% | 37.1% |

C. Changing Voting Majorities (IBRD and IDA)

45. The weight of DTC voting power in Bank decisions could also be increased by changing the required majorities for Bank decisions. Decisions at IBRD and IDA are generally made by simple majority vote, except when the Articles of Agreement require special majorities. There are few special majority requirements, particularly when compared with the Fund. Changing voting majorities would require amendment of the Articles of Agreement.

46. At IBRD and IDA, special majorities are already required for a number of decisions by the Board of Governors, such as capital increases (75% majority), increase in the number of Executive Directors (80% majority), and amendment to the Articles of Agreement (approval by three-fifths of members having 85% of voting power). IDA's main special majority requirement is for increases in subscriptions (two-thirds of voting power); IDA Articles' amendments require three-fifths of members having 80% of voting power.

47. Future voice reform could consider options to enhance the weight of currently available voting power of individual members. One option could be to **increase double-majority requirements** so that more decisions at the Bank should be taken by the same percentage of members and of voting power. Another option could be **removing block-voting by Board constituency** that is required under the Bank's Articles. Removing this requirement would permit each constituency member's votes to be cast separately, with the potential to increase the effective voice of each member.⁶

48. **Parity Between Developed and DTC Members.** Shareholding in the Bank has evolved in line with members' economic weight and contributions to the Bank Group over the Bank's history. That evolution has remained static since the last SCI in 1998, and has yet to reflect dynamic changes in members' positions over the past ten years. Many members have emphasized the objective to make the Bank a more equitable,

⁶ However, it should be noted that block-voting has been an important element in support of the institutional role of the Bank's Executive Directors. Split voting is permitted at the Asian Development Bank and the European Bank for Reconstruction and Development.

representative and transparent multilateral institution, further strengthening its legitimacy, credibility and accountability. To that end, some members have proposed moving, over time, toward the concept of parity between developed and DTC members into Bank governance. This would represent a paradigm shift requiring extensive dialogue among shareholders. The concept of parity may relate to shareholding, with transfers or increases in shares as countries' economic positions change. The concept of parity may also relate to voting majorities, bearing in mind that this would separate the burden-sharing element of IBRD shareholding (in the event of a call on the Bank's capital) from decision-making.

IV. STRENGTHENING BOARD REPRESENTATION AND EFFECTIVENESS

49. Voice and participation in the decision making of the Bank could also be enhanced through an expansion of DTC representation at the Board. This dimension of Voice has been mentioned in particular for members from Sub-Saharan Africa. Various options have been discussed, including an additional Executive Director representing Sub-Saharan Africa; strengthening Board efficiency and effectiveness; and an additional Alternate Executive Director for large constituencies. These options are discussed below.

50. While membership, shareholding and voting power structures differ among the institutions of the World Bank Group, IBRD Executive Directors serve *ex-officio* as Directors for IDA and IFC; MIGA has a separately elected Board. Since IBRD's inception, the number of Board seats has doubled from 12 in 1944 to 24 today. Most recently, two additional elected Executive Director positions were added in 1992. Five Executive Directors are appointed, representing members having the largest number of IBRD shares; the remaining 19 Executive Directors are elected by all other members, voluntarily forming constituencies ranging in size from single member constituencies to 25 member constituencies. Each Executive Director appoints an Alternate Executive Director. Regular elections of Executive Directors are held every two years for IBRD and MIGA, so that elections are concluded at the Annual Meetings for a two-year term beginning November 1. The 2008 regular election is in progress, and will conclude at the 2008 Annual Meetings.

A. Strengthening Board Representation for Sub-Saharan Africa

51. There is consensus of members to strengthen Board Representation for the 47 countries of Sub-Saharan Africa (SSA) on all four Bank Group Boards, so that **three Executive Directors would represent the SSA countries, rather than two.** Currently, about half of IDA's annual commitments benefit SSA members, representing about one quarter of IBRD's and IDA's combined total annual commitments. The two SSA constituencies also represent the largest number of countries per Board seat (22 and 25, respectively, including informal country representation), almost all of which have active programs with the World Bank Group. This constrains work effectiveness, increases the cost of member consultation, and effectively dilutes individual members' voting power

due to bloc-voting per Board seat. Adding a third seat for SSA shareholders could reduce the number of members to an average of about 16 members per SSA constituency.

52. Three Executive Directors for SSA could be achieved by keeping the total number of Board seats at 24, through a rearrangement of current constituency groupings. This mechanism would entail far-reaching impacts on national interests and political considerations of members and could delay realization of the current consensus for an additional SSA constituency. Another option could be to add one more SSA seat by **increasing the number of total Board seats to 25**, adding a 20th elected Executive Director to the Board. For both options, the implications for the cost of Board operations as well as for the efficiency and effectiveness of the Board's work would need to be addressed.

53. Increasing the number of elected Executive Directors requires approval by the Board of Governors, by an 80% majority of total voting power. Consideration could also be given to amending the relevant provision in the Bank's Articles to confirm the Governors' implied power to decrease the number of elected Executive Directors, a change that was made in the Fund's Articles in the 1970s.

54. To accommodate concerns of cost efficiency, an **additional SSA Board seat could be implemented in a relatively budget-neutral manner**. In this context, the two Executive Directors from SSA mentioned the willingness to release up to 6 Advisor positions from their Board constituencies for the third SSA constituency and to share their current, joint travel budget among the three future SSA constituencies. Additional positions could also be transferred voluntarily by the offices of other Executive Directors to the newly created third SSA constituency. The extent of cost neutrality will need to take into account the benefits of an additional SSA Board seat as well as its eventual costs.

55. The shareholders could decide to **add an additional Alternate Executive Director** in large constituencies. The reform package at the Fund includes an Articles' amendment to that effect. For the Bank, this option would also require an amendment of Articles, which an additional Board seat would not.

B. Strengthening Board Effectiveness

56. The objective of Voice reform could also be enhanced by strengthening the Board's effectiveness. Concrete actions to strengthen the effectiveness of Board operations and processes are expected to be detailed this fall, in light of the recommendations for near-term changes from COGAM's Working Group on Internal Governance. These near-term changes fall into the following themes, and are subject to further review by COGAM and the Board: **Rebalancing the Board's Role in Strategy/Policy, Operational Transactions and Oversight; Repositioning of Board Committee Processes; and Renewing Best Practices in Board Governance and Conduct.**

57. As signaled in the Working Group report, the Bank Group's Corporate Secretariat is launching an initiative to improve cost-efficiencies through review and reduction of categories of documents circulated to the Board (based on need and utility), and through streamlining and technological improvements of standard products (notices, green sheets, minutes).

V. ENHANCING VOICE AND PARTICIPATION IN THE WORK OF THE WORLD BANK GROUP

58. Beyond voting power, capital shares and members' representation at the Board, taking an expansive view on Voice and Participation would lead to the third main dimension of **Voice as responsiveness to DTC views on development**. The objective here is to further enhance legitimacy, credibility and accountability in the work of the Bank Group.

59. Enhancing Voice and Participation in the way the Bank operates can be achieved in a variety of ways, such as by broadening the representation of DTC nationals in World Bank Group staff and management; deepening country ownership through decentralization of staff and a broader field presence, including staff familiarization with countries' culture and circumstances; improving communication strategies in Bank operations and enhancing the access of members' states to information; and fostering inclusive development and mutual accountability, including through the Bank's country-based and country-led development model.

60. **Much has already been achieved by the Bank on this expansive view of Voice and Participation.** The World Bank Group has a diversified work force originating from 167 countries. Nearly two thirds of Bank staff are from Part II countries, with African nationals accounting for one quarter of staff from Part II countries. The senior management team is also highly diversified with recent appointments from Part II countries including a Managing Director, the Chief Economist and four Vice Presidents. Nearly 42% of all Bank managers are from Part II countries, and nearly 44% of Bank managers are women. Steps to broaden diversity to further strengthen DTC representation among Bank staff and recruitment efforts are being undertaken to ensure broad representation.

61. To improve effectiveness and enhance field-based decision-making, the Bank continues to increase the decentralization of its staff to the field. The World Bank Group has offices in 110 countries, employing some 40% of the workforce. More than 800 international staff are located in country offices and more than one third of tasks are managed from the field, up from about one quarter five years ago. For IBRD and IDA, three out of four Country Directors are based in the field. For IFC, 90% of its regional management cadre is based in the field, including the entire management team for the Africa region. For the first time, a World Bank Group Vice President is now based in the field. There is an ongoing effort to strengthen World Bank Group field presence in fragile states to attract the most qualified staff.

62. To strengthen capacity for DTC participation in decision-making at the Bank, some 100 DTC counterpart staff were trained over the past four years under a Voice Secondment Program. To build capacity at Executive Directors' offices, constituencies with more than 20 member countries increased their staff by adding one additional Senior Advisor and two additional Advisors. An analytical trust fund was established to provide the two Sub-Saharan African Board constituencies with independent technical research.

63. Efforts are underway to incorporate tailored communications outreach strategies in most Bank-financed operations. Many new projects feature dedicated communication components to increase outreach and strengthen involvement - and thus Voice - of local communities, stakeholders and beneficiaries. To foster inclusive development and mutual accountability, the Bank's Country Partnership Strategy has evolved from a prescriptive document to a participatory process, ensuring that the Bank's assistance is based on recipient countries' own development and poverty reduction priorities. Voice is further enhanced by promoting accountability vis-à-vis stakeholders through the Inspection Panel and the Department of Institutional Integrity.

64. Going forward, **management's expanding commitments in the areas of staff diversity, decentralization, country ownership and communication** could be linked as an integral part of an agreed Bank reform package on Voice and Participation. Under the Bank Group's Diversity and Inclusion Strategy, reviewed by the Board in 2007, emphasis will continue to be placed on diversity in management positions, particularly at senior levels; an update is expected later this year. Similarly, the Board is expected to review an enhanced decentralization framework later this year, and, under IDA 15, management has undertaken to increase the share of IDA programs and projects managed in the field. The Board is also expected to discuss this fall a retrospective review of the Bank's country assistance strategies, another opportunity to focus on country ownership and country partnerships. The Bank Group's policies and actions in these areas — diversity, decentralization, and country-based model — will be reviewed regularly by the Boards. These areas will become even more important following the recent Accra Third High Level Forum on Aid Effectiveness. Subject to decisions by shareholders, more Bank Group Annual Meetings outside Washington could also deepen engagement of all stakeholders in Bank Group work and decision-making, and reflect the significant changes in the global political economy.

65. While increasing senior management diversity falls within the responsibility of the Management and the Board's general control, the process for selection of the President falls within the Board's exclusive responsibility. Historically, shareholders have considered this process in the context of understandings about the selection for the Managing Director at the IMF and the heads of other international financial institutions. The 2006 IMF Quota and Voice reform package emphasized the importance of an open and transparent process. For selection processes since then, the Boards at both the IMF and the Bank have provided considerable transparency about the qualifications for the position, the possibility for nominations by any Board member, and the procedural steps leading up to their decisions. Neither the Bank nor the IMF have formal or legal

selection procedures for their heads. There is considerable agreement on the importance of a selection process for the President of the Bank that is merit-based and transparent, with nominations open to all Board members and transparent Board consideration of all candidates.

VI. CONCRETE OPTIONS FOR A VOICE REFORM PACKAGE

66. The objectives, guiding principles and elements for a package of reforms to enhance Voice and Participation in the World Bank Group are outlined in the previous sections of this paper, reflecting extensive discussions among members. On the basis of these discussions, a package of concrete options has emerged for Voice reform, to be implemented as follows.

(a) The Voice Reform Package

- (i) **Increase in IBRD Basic Votes.** Basic Votes would be increased in the Bank's Articles to 5.55% of total votes (the percentage resulting from doubling the current number of Basic Votes). The weight of Basic Votes would be maintained, regardless of future changes in IBRD shareholding. (paragraph 19 (a))
- (ii) **Realignment of IBRD shareholding**
 - (A) DTC members whose voting power would otherwise decrease due to the doubling of Basic Votes would benefit from an exceptional allocation of available IBRD shares for subscription to mitigate that decline. These DTC members would be current on their IDA subscriptions. (paragraph 30)
 - (B) The Bank's Board would complete a major review of IBRD shareholding that considers the evolution of all countries' relative weight in the world economy, as well as Bank-specific criteria, embodying the features outlined in paragraphs 35-38 and paragraph 66 (b)(iii). The review would lead to a subsequent significant realignment of IBRD shareholding for all members, and it would also provide an important opportunity to further enhance the Voice of DTC members. The review would also address the concept, advocated by some members, of moving over time towards equitable voting power between developed and developing members. With regular progress reporting, the Board would develop proposals by the 2010 Spring Meeting and no later than the 2010 Annual Meetings, with a view to reaching consensus on realignment at the following meeting (see also Annex for work program).
- (iii) **Increase in IDA Part II voting power.** Part II members are expected to take up their allocated but unsubscribed IDA subscriptions, while voluntary financial support from donors would be expected for the poorest Part II members, on an exceptional basis. (paragraph 42)
- (iv) **An additional voice for Sub-Saharan Africa in the Bank Group.** The Bank Group's 47 member countries in Sub-Saharan Africa would be represented by a third elected Executive Director on the Bank Group's Boards, as a result of the

addition of a 25th Executive Director position. (paragraphs 51-54)

- (v) **Strengthening Board effectiveness and internal governance.** The Bank Group's Boards of Executive Directors and Management would implement reforms that would enhance the effectiveness of internal governance processes and functions and would increase efficiency and reduce cost in the operations of the Boards. Agreement on a set of reforms to strengthen Board effectiveness and internal governance would facilitate the introduction of the additional Board seat for Sub-Saharan Africa in a relatively budget neutral manner. (paragraphs 56-57)
- (vi) **Deepening responsiveness to DTC views on development.** Bank Group senior management appointments will continue to recognize the importance of increasing diversity, and planning is underway to deepen Bank Group decentralization and field presence and increase the share of programs and projects managed in the field. Bank Group Annual Meetings would be held more frequently outside of Washington, DC, subject to decisions by shareholders. (paragraph 64)
- (vii) **Process for selection of the Bank's President.** There is considerable agreement on the importance of a selection process for the President of the Bank that is merit-based and transparent, with nominations open to all Board members and transparent Board consideration of all candidates. (paragraph 65)
- (viii) **IFC Voice reform.** Voice at the IFC Board will be enhanced with the third Executive Director for Sub-Saharan Africa. For IFC voting power and shareholding, the IFC Board would review the implications for IFC, its members and its finances, functions and operations of introducing voice reforms similar to the IBRD voice reforms, and develop proposals by the 2010 Spring Meeting and no later than the 2010 Annual Meetings, with a view to reaching consensus at the following meeting. (paragraph 44)

(b) Implementation of the Package

- (i) **Approvals.** If the Development Committee endorses the overall reform package at the 2008 Annual Meetings, the proposals listed in paragraph 66 (a) would be presented to the Bank Group's Boards for formal approval. For the increase in IBRD Basic Votes, allocation of IBRD shares and additional elected Executive Director, approval by the Board of Governors would be sought. The Articles amendment to increase Basic Votes, if approved by the Governors, would subsequently be transmitted to the Bank's 185 member countries for acceptance. The allocation of shares would take effect when the amendment has been duly accepted by three-fifths of members holding 85% of total voting power.
- (ii) **Reporting.** A progress report on implementation of the Voice reform package would be provided at the time of the 2009 Spring Meetings, with regular reporting thereafter. By 2010 (at the Spring Meeting and no later than the Annual Meetings), the Bank Group's Boards would develop proposals on IBRD shareholding realignment and IFC Voice Reform, as appropriate, with a view to

reaching consensus among shareholders on final proposals by the time of the following meeting.

- (iii) **Work program.** The work program for the IBRD shareholding review, detailed in paragraphs 35-38, would include the steps listed in the Annex. This work program would be carried out under the guidance of COGAM and the Board.

67. Once implemented, this Voice reform package would bring substantial progress in the Voice and Participation agenda at the Bank.

- The voice and voting power of the smallest shareholders, mainly the poorest member countries in the IBRD and IDA, will increase, while the voting power of larger middle-income developing countries will be protected.
- DTC members will occupy a majority of seats on all four Bank Group Boards (IBRD, IDA, IFC and MIGA). The voice of Sub-Saharan Africa will be expanded, as a third Executive Director representing Sub-Saharan African members will be added to the Boards.
- Moreover, the aggregate voting power of DTC members in IBRD will initially rise to 44%, to be followed by a further increase under the subsequent realignment of IBRD shareholding. In IDA, Part II voting power would rise up to 48%.
- The Bank's Board will complete a major IBRD shareholding review, to take a comprehensive view of the implications for the Bank and its members' shareholdings stemming from changes in the world economy and in the Bank Group. This stocktaking will result in proposals for subsequent realignment to address underrepresentation of Bank members.
- Building on the Bank Group's strong record of diversity and decentralization, there are renewed commitments to further strengthen diversity of staff and management and to broaden Bank presence and decision-making in the field.
- The Bank Group's Boards have also turned their attention to improvements in internal governance functions and processes, with a view to facilitate voice at the Boards.
- The reforms emphasize a merit-based, transparent and open selection process for the Bank's President.

In sum, this package of reforms will significantly enhance the voice and participation of DTC members in four Bank Group institutions — IBRD, IDA, IFC and MIGA.

Annex: Work Program for IBRD Shareholding Review and Realignment

Work Program Activity and Sequencing

- (1) Reviewing the specific development mandate of the Bank vis-à-vis the Fund and the possible implications for a realignment of IBRD shareholding, and setting out the principles for shareholding at IBRD. (6 months)
- (2) Developing various criteria and options for realignment of IBRD shareholding, considering relative weight in the world economy, members' contributions to the Bank Group mandate, and additional Bank-specific criteria such as GNI and GDP, at market rates and based on PPP, as well as other criteria. (6-12 months)
- (3) Analyzing the implications of how different options for realignment would apply for individual members; developing initial proposals for realignment of shareholding. (6 months)
- (4) Structuring the available mechanisms to facilitate an adjustment of relative shareholding of members, also taking into consideration the Bank's uses and need for capital; finalizing proposals for realignment of shareholding. (6 months)