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Protecting Power: How Western States Retain The Dominant Voice in The World Bank's Governance

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Summary. — The global economic crisis raised the urgency of reforming the Bretton Woods organizations in order to get more "buy in" from developing countries. But the "voice" reforms announced in 2010, heralded as a major shift in favor of developing countries, left them severely under-represented relative to their weight in the world economy, both collectively and many individually. This paper reveals how the World Bank and representatives of western states manipulated the process to make voting power changes *appear* substantial. The paper then discusses alternative voting power systems for the Bank, in light of the generally accepted need to enhance the legitimacy of the organization.
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1. INTRODUCTION

As has often been remarked, the world is currently experiencing the biggest shift in the location of economic activity in two centuries; roughly speaking, from West to East. While applauded by some, the shift is creating deep insecurity in the long dominant western states, prompting them to try to protect the power positions they attained as a result of their economic dominance in the decades after the Second World War. And it is also creating ambiguity in the rising states about their new role in inter-state organizations, wanting a larger voice but also wary of new responsibilities.

In a speech in April 2010, World Bank president Robert Zoellick (2010) argued that the advent of "a new, fast-evolving multipolar world economy" required fundamental reforms of the World Bank itself, including in the balance of power between developed countries and emerging countries. Soon after, the World Bank presented a set of ostensibly far-reaching proposals on "voice reform", to be endorsed by its Board of Governors, the culmination of negotiations begun years before. [1] Voice reform had several components, of which the central and most contentious one was voting reform to give developing and transition countries (DTCs) more voting power in the Bank's governing body.

The Governors approved the proposals at the 2010 Spring Meetings of the World Bank and International Monetary Fund (IMF), and the Bank launched them under the headline, "New World, New World Bank" (WB, 2010).

> "A modernized [World Bank Group] must represent the international economic realities of the early 21st century… [W]e are significantly increasing developing and transition country voice across the Group… This realignment strengthens our ability to continue to support the smallest poor members, and demonstrates that a greater say for emerging and developing countries brings with it greater responsibility for the financial soundness of the Bank Group".

To what extent is this true? Does the new distribution of votes bring the organization more closely into line with the distribution of economic weight in the world economy? The short answer is: yes but by very little and by much less than the Bank claimed. [2]

Our argument can be summarized as follows. First, the voice reform increased the share of DTCs from 42.60% to 47.19% and reduced the share of developed countries from 57.40% to 52.81%. So at first glance, the voice reforms brought the World Bank close to voting power parity (50%) between developed and non-developed countries, one of its stated objectives. In reality the shift was much more modest, because the DTC category includes several high-income countries which should not be in the developing country category and do not borrow from the Bank. Including only low and middle income countries—the Bank's borrower members—the voting share of developing countries (in the proper sense of the term) increased from 34.67% to only 38.38% while the developed (high-income) countries retained more than 60%.

Second, relative to the objective of aligning country voting power with country economic weight, the realignment fell well short. So small were the changes in voting power for the vast majority of countries that one exasperated observer described the negotiations as a search for "compromises at the third decimal point". The upshot is that ratios of "share of votes to share of world GDP" continue to vary widely from country to country, from 0.5 to 4, despite the often-declared principle that voting power should "largely reflect economic weight" (so that each country's ratio should be fairly close to 1). A

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number of small European countries and a few large DTCs continue to have disproportionately large amounts of voting power, while several dynamic emerging market economies, including China, continue to be significantly under-represented. The eightfold difference in the extent to which GDP translates into voting power weakens the legitimacy of the World Bank's governance.

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

Fourth, the voice reform made no headway in reaching agreement on criteria for reallocating votes in future (except for the agreement that shareholding reviews be conducted every 5 years). For example, it is unclear whether the next shareholding review in 2015 will take "voting power parity" between developed countries as a group and DTCs as a group as the central objective, and whether and how a country's financial contributions to IDA (the soft-loan arm of the World Bank) should be recognized in its share of IBRD votes (IBRD being the main lending arm).

Fifth, the modest gains in voting shares for DTCs announced in the 2010 reform are premised on several high-income countries' promises not to subscribe to the full amount of shares that they are otherwise entitled to. But since then they have reversed their promise and actually increased their shares. Meanwhile most low-income countries have not subscribed to the full (small) increase in the amount of shares they are entitled to. As of 2012 the actual distribution of votes, after years of protracted negotiations, differs from the distribution before the beginning of negotiations in 2008 by only a sliver.

After elaborating these points we answer the obvious next question: what should a future voting power reform look like?

Section 2 gives a brief overview of the Bank's governance arrangements. Sections 3 and 4 describe the results of two phases of voice reform, completed in 2008 and 2010. Section 5 assesses the voting power realignment in the light of the Bank's avowed normative principles. Section 6 describes the devices by which the western states were able to protect their power. Section 7 further elaborates on the constraints and incentives on states as they tried to negotiate an agreement. Section 8 discusses issues to be faced in the next shareholding review and proposes a new, viable voting power model. Section 9 concludes.

2. THE GOVERNANCE OF THE WORLD BANK

The three main components of the World Bank Group (WBG) are the International Bank for Reconstruction and Development (IBRD), the International Development Association (IDA), and the International Finance Corporation (IFC).[3] While formally the three entities have separate boards, the same people sit on the boards of each (with different voting power depending on whether the subject matter at hand concerns the IBRD, IDA, or IFC). The voice reform focused on the main lending arm, the IBRD, because while shareholding differs for IBRD, IDA, and IFC, it is IBRD shareholding that determines the structure of all three boards (DC, 2010a, p. 3).[4]

The IBRD was established in 1944 as the original organization of the World Bank Group. The shareholdings of its 187 member countries are comprised of two elements: basic votes and quota votes.

Basic votes are allocated to all members in the same amount, and quota votes are allocated in proportion to shares subscribed to. This combined system of basic votes and quota votes was a compromise between two factions at the original Bretton Woods conference, "respectively preferring a one member–one vote system and voting based purely on the size of each country's economy" (Woodward, 2007, p. 1). Introduced at the founding of the IBRD, basic votes were to ensure voting power for the smaller and poorer member countries. The Articles of Agreement stipulate that the number of basic votes shall be 250 per member, and this number has been frozen since 1944. Over the years the share of basic votes in total votes has eroded to just 2.8% from the initial level of more than 10% as the allocation of quota votes increased.[5]

On top of the 250 basic votes, each member country has one additional vote for each share of stock held (IBRD Article V, Section 3a). One share gives one quota vote.[6] Although the notion of shareholding might so imply, there is no market for IBRD shares.[7] Instead, IBRD shares are allotted to member countries in proportion to their "relative position" in the world economy—at least in principle:

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

Historically, the World Bank has operationalized the criterion of proportionality between shares and "relative position" in the global economy by almost mirroring the distribution of IMF quotas in its allocation of IBRD voting shares.[8] The voting reform agreed in 2010 abandoned the close link to the IMF quota formula. It was based on a quota "framework" (not "formula") developed exclusively for World Bank (IBRD) shareholding, with only indirect reference to IMF quota. Taken at face value, the 2010 World Bank voting framework gave stronger weight to GDP (75%) than in the IMF formula (50%), suggesting a close and strengthened link between share of world GDP and share of IBRD votes. In fact, however, voting power to GDP ratios vary in mysterious ways, as we shall see.

All member countries have direct representation as members of the Board of Governors, at the level of ministers, which convenes twice a year, once at the Spring Meetings of the World Bank and the IMF and once during the Annual Meetings in the autumn. Its role is limited. It delegates authority to a subset of its members, which constitutes the Development Committee. But deliberation and negotiation among the member countries mainly take place in and through the Executive Board of Directors (EBD), a resident body comprised of civil servants, based in Washington. The EBD has overall responsibility for the general operations of the Bank and exercises all the powers delegated to it by the Board of Governors, which includes both executive and oversight functions.[9]

At first the EBD consisted of 12 Executive Directors, as prescribed in the IBRD Articles of Agreement (Article V, Section 4b). Over the years, the total number of Executive Directors has increased to 25.[10] Eight of these are single-country seats (United States, United Kingdom, France, Germany, Japan, China, Russia, Saudi Arabia), and the remaining 17 are multiple country constituency seats.[11]

Most decisions require a simple shareholding majority, although there are important exceptions. Special majorities are required for issues such as capital increases and amendment

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