




World Bank Group Spring Meetings Update: Voice Reform and Capital Increase

**Presentation to ECOSOC
May 21, 2010**

Roadmap

-  **Introduction and Summary**
-  **Voice and Participation Reform**
-  **General Capital Increase**
-  **Conclusion**

Introduction

“Today was a good day for multilateralism. On April 25, 2010, the Development Committee endorsed a historic package of reforms that positions the Bank to continue to serve the interests of poor people in developing countries. Each part of the package is significant. Together they represent a dynamic transformation of the Bank Group.”

-Robert B. Zoellick, April 25, Washington, DC

Package Endorsed by Development Committee at Spring Meetings

■ **Voice: Increased voting power of developing countries to 47.19 percent – a total shift to Developing and Transition Countries of 4.59 percentage points since 2008**

■ **Capital: Approved a capital increase of \$86.2 billion, of which \$5.1 billion is paid-in.**

- ▶ General capital increase (GCI): \$58.4 billion, with \$3.5 billion in paid-in.
- ▶ Selective capital increase (SCI) associated with the voice reform: \$27.8 billion, with \$1.6 billion in paid-in.

■ **Strategy: Endorsed the WBG's post-crisis strategy, which emphasizes -**

- ▶ Targeting the poor and vulnerable, especially in Sub-Saharan Africa
- ▶ Creating opportunities for growth
- ▶ Promoting global collective action
- ▶ Strengthening governance and anti-corruption efforts
- ▶ Preparing for crises

■ **Reform: Endorsed the WBG's extensive reform program, including -**

- ▶ Modernizing services: Knowledge services and Financial Services
- ▶ Enhancing service delivery: Matrix Reform and Decentralization
- ▶ Enabling systems: IT, HR, Budget processes
- ▶ Achieving results and maintaining standards: Managing for Results, Transparency, Risk management

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Voice and Participation: *From Monterrey*

Monterrey Consensus on Financing for Development (2002) encouraged the World Bank and IMF

to continue to enhance participation of all developing countries and countries with economies in transition 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

Voice Dimensions: *Different Concerns for Different Members*

Voting Power and Shareholding

Effective Representation at the Board

Responsiveness to DTC Views on Development

Phase 1 of Voice Reforms-2008

Phase 2 of Voice Reforms- 2010

Voice Reform Phase 1 (October 2008)

Phase 1 (endorsed by Development Committee in October 2008; approved by WBG Boards of Governors in January 2009).

- ❑ New chair for Sub-Saharan Africa (bringing to 3 the number of seats for Sub-Saharan Africa on the Bank's 25 Member Board).
- ❑ Increase in developing countries' shares in IBRD to 44.06% and beyond that in IDA (the part of the Bank that focuses on the world's poorest countries). This increase of 1.46% will be achieved through doubling of basic votes, benefiting the smaller countries the most.
- ❑ Completion of the reform requires amending the World Bank's Articles of Agreement and is expected in 2010. So far over 80% countries (representing nearly 70% of voting power) have accepted the amendment.
- ❑ Establishment of a donor trust fund to increase voting power of developing countries in IDA (the part of the Bank that focuses on the world's poorest countries)

Voice Reform Phase 2 (April 2010)

At IBRD, the voting power of developing countries will increase by a further 3.13%, to 47.19%.

- ❑ The shareholding realignment will be carried out through issuance of additional shares in a selective capital increase.
- ❑ The realignment incorporates key aspects of IBRD shareholding stressed by the Development Committee in Istanbul:
 - Moving towards equitable voting power
 - Based on evolving economic weight of member countries, and their contributions to the World Bank's development mission
 - Includes special recognition of contributions to IDA
 - Offers protection for the voting power of the smallest poor countries.
- ❑ Beyond these core elements, Voice also relates to a commitment to staff diversity, further decentralization of Bank operations and country ownership, as well as recognition of importance of an open, merit-based and transparent process for the selection of the President.

Voice Reform Phase 2 (2010)

At IFC, the voting power of developing countries will increase by 6.07%, to 39.48%

- ❑ Principle: broad and flexible alignment with IBRD shareholding
- ❑ The IFC 2010 shareholding realignment is carried out through some members' subscriptions to a capital increase of \$200 million (all paid-in) and increase in the basic votes for all members (5.55% of total votes)

In IDA, the voting power of developing countries has increased to about 46%, aided by the Phase 1 trust fund (contributions from France, Norway, Spain, and Switzerland), up from about 40% at the start of the Voice reform discussions.

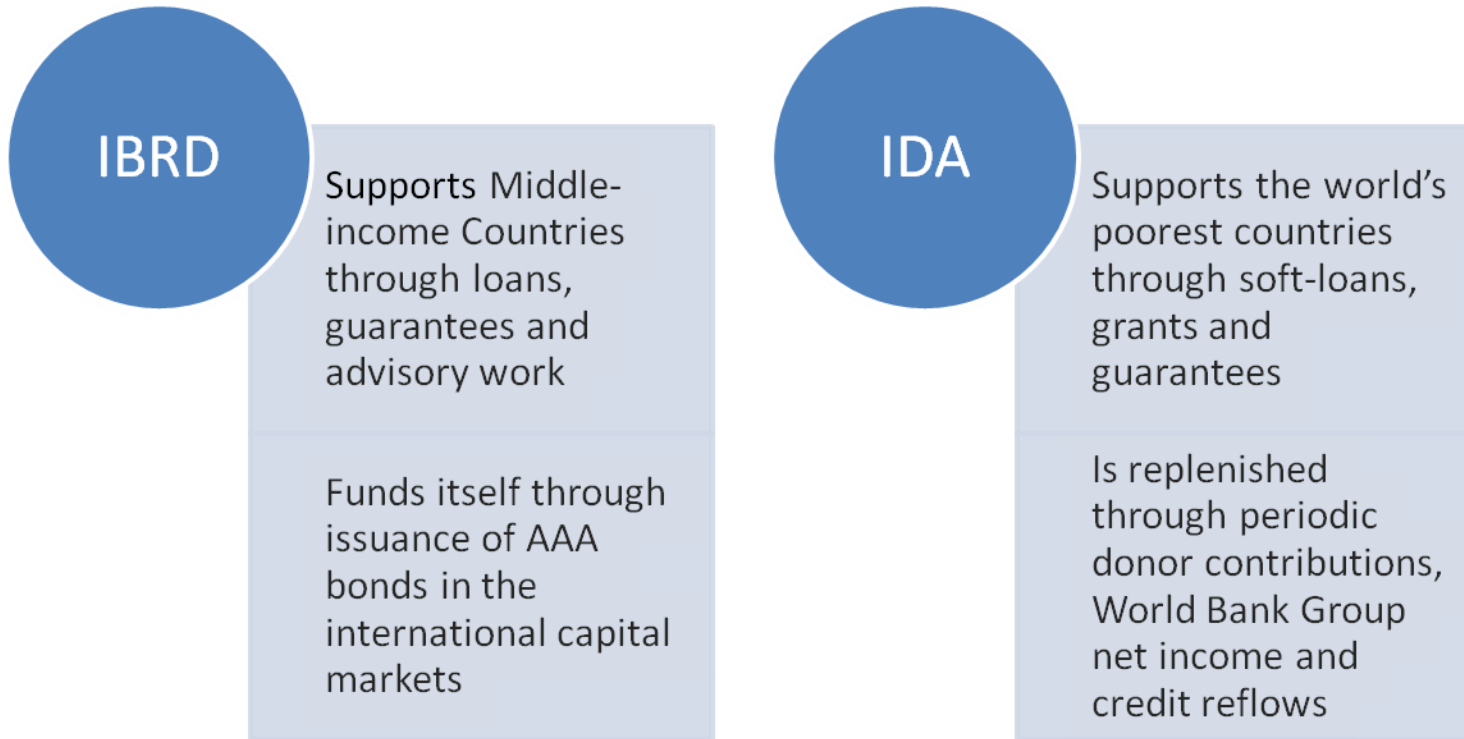
Future Shareholding Reviews

- ❑ To maintain dynamism, the 2010 Voice Reform package also introduces periodic shareholding reviews every 5 years for both IBRD and IFC
- ❑ For the next IBRD shareholding review in 2015, shareholders will establish a work program and a roadmap to arrive at a benchmark for a dynamic formula, reflecting the principles agreed at the October 2009 Development Committee meeting in Istanbul, moving over time towards equitable voting power and protecting the voting power of the smallest poor countries

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IBRD's financial model



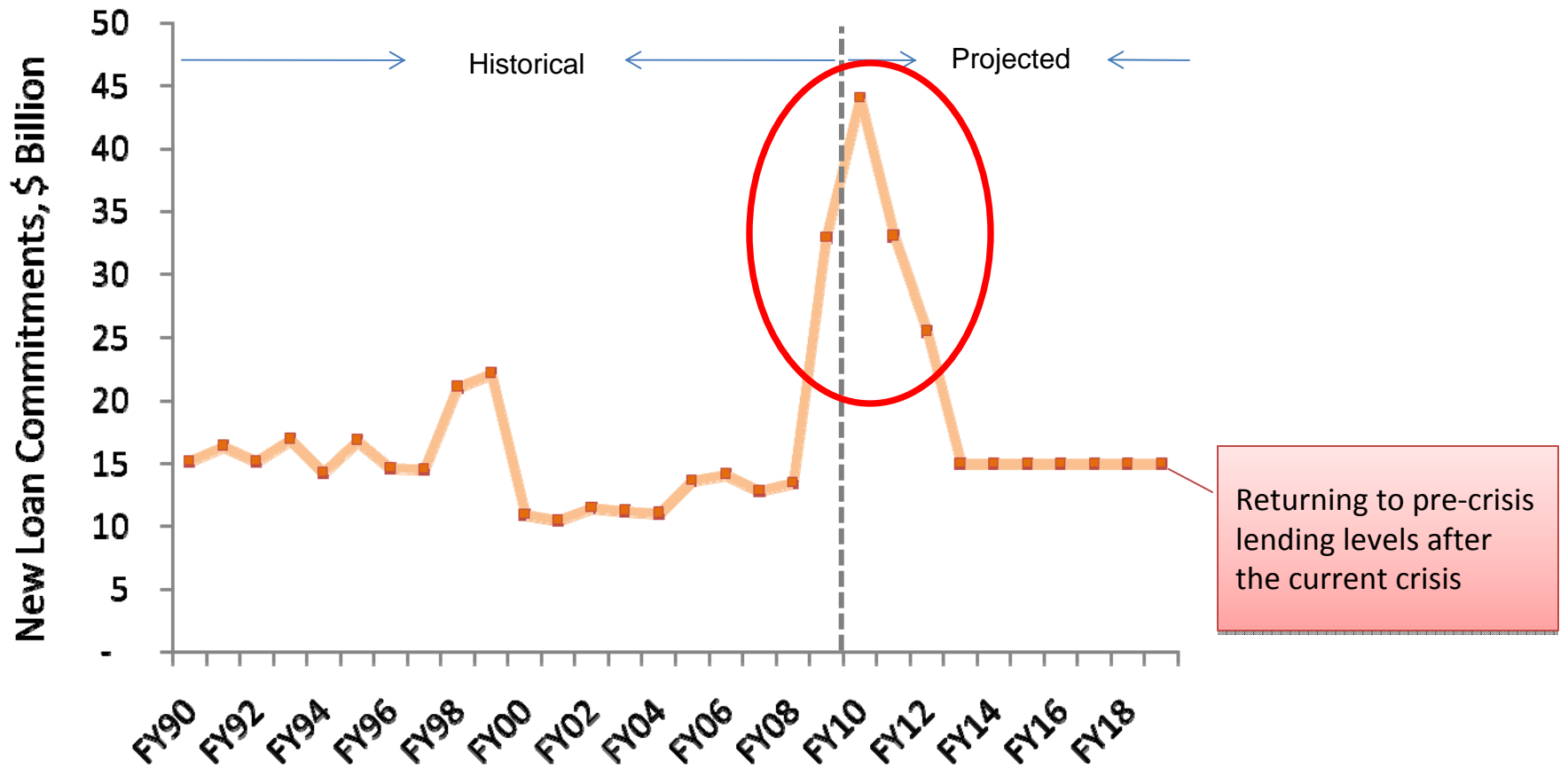
Capital Increase endorsed by Development Committee at Spring Meetings

	\$ bn		
	<u>Paid-in</u>	<u>Callable</u>	<u>Total</u>
General Capital Increase	3.5	54.9	58.4
Selective Capital Increase	1.6	26.2	27.8
	5.1	81.1	86.2

Grows risk-bearing capacity to support additional lending

Payable if Bank would otherwise default to bondholders. Supports ability to pass attractive funding costs to borrowers

IBRD's record crisis response



Package to Enhance IBRD's Financial Capacity

A package of measures that emphasizes mutual responsibility and sharing of interests was endorsed the Development Committee in the Spring Meetings



☀ General price increase (summer 2009)


☀ General capital increase

☀ Selective capital increase from Voice reform

☀ Release of existing national currency paid-in capital

☀ Reform of loan maturity terms





☀ Continued budget discipline

- 
- Package involves contributions from both developing and developed countries.
 - These measures would fill the projected equity gap and allow IBRD to return to pre-crisis lending levels.

General Capital Increase and IDA

- ✿ The GCI would allow IBRD to continue to transfer to IDA to support the poorest countries
- ✿ The GCI has been agreed with a clear understanding that if the GCI resources are no longer needed to back IBRD lending in the future, they will be redirected, through the annual income allocation process, to other purposes, as decided by shareholders, with strong considerations given to IDA transfers to support the poorest countries.

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Conclusion: What this package means

- **This is a strong vote of confidence from our shareholders.** Delivering during the financial crisis made this possible – WBG financial commitments since July 2008 have reached a record \$105 billion.
- **An example of multilateralism and burden-sharing at work.** The package has more than half of resources coming from developing countries, including through price increases and complete use of their investments in WB shares.
- **This additional capital can be deployed to create jobs and protect the most vulnerable** through investments in infrastructure, small and medium sized enterprises, and safety nets. This package **ensures that the WBG can continue to deliver** on its poverty reduction mandate, supporting countries as they tackle development challenges in the post-crisis era.
- **The change in voting power helps us better reflect the realities of a new multi-polar global economy** where developing countries are now key global players.