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CONFIDENTIAL

IDA/RPL/70-24

WBG ARCHIVES

May 11, 1970

IDA THIRD REPLENISHMENT

Adjustment of Voting Rights;
Consideration of Course of Action

I. Introduction

1. Discussions have been held among the Part I countries regarding tentative proposals to adjust (with or without an amendment of the Articles of Agreement) their voting power in order to reflect their financial contributions to the Association. In addition, since certain aspects of these proposals affect the Part II countries, discussions were held by the staff with the Executive Directors representing those countries.

2. The proposals present a number of problems which have not yet been entirely resolved and a clear consensus among the Part I members has not yet emerged, although it is clear that there is general agreement on a number of issues. This memorandum outlines the basic issues involved in the various proposals in the hope that a consensus can soon be reached on a course of action which can be used as a basis for (i) the agreement among the Part I countries on the terms of the Third Replenishment and (ii) the report to be made by the Executive Directors on the adjustment of voting power as required by paragraph 23 of the March 8, 1968 Report of the Executive Directors on the Second Replenishment. These proposals have been discussed in detail in prior memoranda considered by the Deputies and this memorandum does not attempt to restate all aspects of them.

3. The courses of action that have been considered with respect to these proposals can, broadly speaking, be put into three main categories, as follows:

- (a) The Third Replenishment would provide for a voting adjustment scheme along the lines of either Scheme A or B;
- (b) The Third Replenishment would provide for a voting adjustment scheme along the lines of either Scheme A or B, together with an agreement in principle by the Executive Directors to recommend to the Board of Governors an amendment of the Articles of Agreement along specified lines;
- (c) The Third Replenishment would not provide for any voting power adjustment scheme but would provide for an agreement, in principle, by the Executive Directors to recommend to the Board of Governors an amendment of the Articles of Agreement along specified lines.

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4. Consideration has also been given to several issues that arise under both Scheme A and B, in particular (i) the total amount of Part II subscriptions to be authorized and the portion, if any, to be paid in convertible currencies, and (ii) the granting of membership votes.

II. Desirability of an Adjustment

5. A basic and preliminary question which has been considered is whether there should be any voting power adjustment at all, either by adoption of Scheme A or B or by an amendment or by both methods. Discussions indicate that there is a consensus among the Part I countries that an adjustment would be desirable. This was the conclusion that was reached by the working party on adjustment of voting rights which met in Washington on February 11 and 13, 1970 (Report of Working Party to Deputies, dated February 20, 1970; par. 3(a); IDA/RPL/70-8) and that seems to have been endorsed by the Deputies, but with reluctance by some, at their subsequent meeting in London on March 9 and 10, 1970 (IDA/RPL/70-15; April 13, 1970; pars. 26-47).

III. Method of Making Adjustment

6. Once this question is answered in the affirmative, the next question to be considered is the method to be used in making an adjustment. For this purpose, consideration has been given to the courses of action described in paragraph 3 above. These are discussed below.

IV. Scheme A or B

7. It will be recalled that Scheme A, in effect, adjusts voting power for all contributions made by Part I countries through the Third Replenishment, whereas Scheme B accords additional votes to Part I countries only for their Third Replenishment contributions, thus disregarding the First and Second Replenishments and supplementary contributions. (For a detailed analysis and comparison of these schemes, see pars. 12-17, IDA/RPL/70-2, dated January 26, 1970; and Section V, IDA/RPL/69-3, dated November 24, 1969.)

8. Discussions among the Part I countries have shown that while there does not appear to be a strong preference in favor of one scheme as opposed to the other there is a preponderance of opinion in favor of Scheme A, although one country has expressed a strong preference for Scheme B. In this connection it should be noted that adoption of Scheme A would, under the pre-emptive rights provision of the Articles of Agreement, Article III, Section 1(c), require the unanimous consent of the Part I countries. Adoption of Scheme B would not give rise to a pre-emptive rights problem and therefore would not, as a legal matter, require unanimous consent of the Part I countries, although as a practical matter of course unanimity would be highly desirable. (For elaboration of this point, see par. 16, IDA/RPL/70-2, dated January 26, 1970.) Therefore, if it is decided that the Third Replenishment should provide for an adjustment of voting power, it will have to be decided whether to adopt Scheme A or B.

V. Part II Subscriptions

9. If either Scheme A or B is adopted it will be necessary for the Part II countries to make additional subscriptions if the present Part I/Part II voting power relationship is to be maintained. If the Part II countries do not subscribe, their relative share in total voting power will decline. This has been recognized by the Part I countries and there seems to be a clear consensus that, in order to avoid a dilution of the relative voting power of the Part II countries, the burden on the Part II countries should be kept low (both in respect of amount and the portion, if any, payable in convertible currency) in order to make it easier for them to subscribe. There also appears to be a consensus among the Part I countries that Part II subscriptions should not exceed about \$50 million (regardless of the level of replenishment) of which not more than 10% would be payable in convertible currencies, and there is considerable support for the view that the total should be less than \$50 million and that no part should be payable in convertible currency.^{1/} The Part II countries have been consulted about the matter and on the whole they have made it clear that they want to maintain their relative voting power and that, if additional subscriptions are authorized, the burden on them should be kept to the minimum.

10. Considering the views which have been expressed by the Part I countries on the matter, it might be said that the consensus would be for total Part II subscriptions of somewhere between \$10 million and \$50 million, with a proportion payable in convertible currencies of somewhere between zero and 10%. If either Scheme A or B is adopted, a decision will have to be made on this point.

VI. Membership Votes

11. Consideration has been given to the question whether any subscriptions which are authorized should carry with them additional membership votes so as to preserve the weighting in favor of the smaller members accorded to initial subscriptions under the Articles of Agreement. The staff memorandum on the subject (Par. 9, IDA/RPL/70-2, January 26, 1970) concluded that membership votes should be accorded and the working party on adjustment of voting power concluded that it was sympathetically disposed towards this objective (Par. 3(c) of Report of the Working Party to the Deputies, IDA/RPL/70-8, Feb. 20, 1970).

1/ If Part II subscriptions were in that order of magnitude, the cost of a vote would be considerably below \$5,000, i.e. the present cost. For example, if authorized Part II subscriptions totalled \$50 million and assuming that the total replenishment by Part I countries is \$3 billion and that membership votes are accorded, under Scheme A the cost of a vote would be about \$500 and under Scheme B about \$250. If authorized Part II subscriptions totalled \$10 million, these latter figures would be about \$100 and \$50 respectively.

12. The one reservation to this conclusion that has been expressed at the Deputies' meetings has been by one Deputy who stated that in his opinion the granting of membership votes would, as a legal matter, be inconsistent with Article III, Section 1(c), the pre-emptive rights provision. This question was specifically considered by the General Counsel whose conclusion is that the Executive Directors can properly recommend to the Board of Governors a voting adjustment scheme which preserves the weighting in favor of the smaller countries by providing for additional membership votes. (See, pars. 5 and 6, IDA/RPL/70-2, January 26, 1970).

13. In any case, the question of whether to accord membership votes has finally to be decided.

Amendment of the Articles of Agreement

14. It is recognized that, without an amendment of the Articles of Agreement, there is no completely satisfactory way in which the voting power of Part I countries can be adjusted to reflect their total financial contributions without affecting the Part I/Part II voting power ratio. It is also recognized that, if there is a voting power adjustment in connection with the Third Replenishment but the Articles of Agreement are not amended before the Fourth Replenishment, the same kinds of problems, although possibly lesser in magnitude, regarding future Part I voting power adjustments and their effect on the relative voting power of the Part II countries would arise under the Fourth and future replenishments as have arisen now. Consideration, therefore, has been given to the desirability of proceeding with an amendment as a long-term solution to the problem, regardless of whether a Scheme A or B voting power adjustment is made in connection with the Third Replenishment.

15. Discussions among the Part I members regarding an amendment have not shown a clear consensus as to any particular course of action regarding an amendment, except that there seems to be wide agreement that it would be undesirable to condition the Third Replenishment on the securing of an amendment since this might result in delay in bringing the Third Replenishment into effect. There is one group of countries which believes that an amendment is the only desirable way to solve the voting power problem in the long run; some countries have said that an amendment is not necessary since, as a practical matter, any voting power adjustment which may be required for Part I countries both under the Third Replenishment as well as under future replenishments, could be taken care of as contemplated by Scheme A or B, with purely nominal amounts authorized for Part II subscriptions; some have said that it would be undesirable as a matter of precedent and philosophy to put the votes of Part I and Part II members into separate classes, as the amendment contemplates; some have reserved their position pending further study. Further to complicate matters, it is not clear whether those countries who are in favor of an amendment would also be in favor of providing in the Third Replenishment for a Scheme A or B interim adjustment.

16. An initial question which is raised by these discussions, therefore, is whether it would be useful now to try to reach agreement on the

desirability of an amendment, and if it is found desirable, on its basic terms. The problem is complicated not only by the fact that the Part I countries have expressed so many differing views, but also by the fact that the terms of the amendment will themselves depend on whether there is an interim voting power adjustment before the amendment becomes effective. For example, as was noted in the staff memorandum on an amendment (Par. 4(a), IDA/RPL/70-17, April 14, 1970), if a Scheme A or B adjustment precedes an amendment, as a practical matter it is likely that the amendment would have to allocate the votes of the two classes on the basis of the voting power of countries at the time the amendment becomes effective; this means that if Part II countries did not fully take up the subscriptions authorized for them under Scheme A or B, their relative voting power would fall from 38% to some lower figure and this lower figure would then represent the new relative voting power of the Part II countries under the Articles of Agreement as amended. If the Third Replenishment does not provide for a Scheme A or B voting power adjustment, the amendment might provide, as was pointed out in the Staff Memorandum (par. 4(a)(ii)), for the initial allocation of votes in either of two ways (a) by allocating to each class and to each member within the class the votes of the Part I and Part II members as they will be in effect immediately prior to the time the amendment becomes effective, or (b) by allocating to each class the total votes of the class as they will then be in effect, but adjusting the votes of the Part I members among themselves to take account of prior contributions either in whole (following the approach of Scheme A) or in part (following the approach of Scheme B).

17. The basic issues therefore that have arisen in connection with consideration of an amendment to adjust voting power are the following:

- (a) Is an amendment along the lines described in the staff memorandum on the subject desirable?
- (b) If so, should the Executive Directors agree in principle on the basic terms of an amendment for submission to the Board of Governors at the time agreement is reached on the Third Replenishment arrangements?
- (c) If so, should this agreement in principle be accompanied by an interim Scheme A or Scheme B adjustment?
- (d) If so, on what basis should the votes be assigned to the Part I and Part II classes on the coming into effect of the amendment?

18. While there are many other questions that will have to be decided if the Articles are to be amended, the questions listed above would seem to be those to which attention should first be directed.

Possible Course of Action

18. It will be seen from the foregoing that, in order to arrive at a workable voting power adjustment scheme, decisions will have to be taken on a number of complex, difficult and inter-related issues. It would be possible to avoid, at least for the time being, some of these issues by

deferring decision on the advisability of an amendment (and hence deferring decision on the basic terms of an amendment) until after the Third Replenishment. This possibility would appear to be one practical approach which might, judging from the views which have been expressed, offer the best prospect of agreement. Therefore, an arrangement along the following lines is suggested for the consideration of the Part I countries.

(a) The Third Replenishment would provide for an adjustment of voting power based on Scheme A, with membership votes being accorded, provided unanimous agreement of the Part I countries can be obtained.

(b) Regardless of the level of replenishment, Part II subscriptions would be authorized in the total amount of \$10 million, all payable in local currency;

(c) The Executive Directors would agree, in their report approving the Third Replenishment arrangements, that further study be given to an amendment to the Articles of Agreement as a long-term solution to the problem of adjustment of voting power, such study to be completed in time to enable recommendations to be submitted to the Board of Governors at their 1971 annual meeting.