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WBG ARCHIVES

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ADJUSTMENT OF VOTES OF PART I MEMBERSReport of Working Party to Deputies

1. Pursuant to the decision taken at the meeting of Deputies in Paris in December 1969 on the Third Replenishment of IDA, a working party, under the chairmanship of Sir Denis Rickett, Vice President of IDA, met in Washington on February 11 and 13, 1970 further to consider the matter of the adjustment of votes of Part I members. The meeting had before it the following documents:

- (a) Memorandum entitled "Adjustment of Votes of Part I Members", dated January 26, 1970 (IDA/RPL/70-2) (herein referred to as the Memorandum and attached as Annex I), and
- (b) certain additional tables (IDA/RPL/70-4; February 11, 1970) (Annex II).

A list of the delegates to the working party meeting is attached as Annex III.

2. The following report summarizes the recommendations which the working party agreed to submit to the Deputies for consideration at their meeting in London on March 9 and 10, 1970.

3. (a) The Need for an Adjustment

The delegates discussed first whether an adjustment of voting power was in fact necessary. Some delegates argued that the changes in effective voting power would, in any event, be small and that there were not sufficient grounds for making any changes in the present position. It was also pointed out that complications might arise due to the fact that the Part II Members are also involved in the adjustment. On the other hand it was pointed out that a system which tended more nearly to equate voting power with financial contributions was more likely to satisfy the members and their legislatures than a system which does not and that this was a question which could be of real political importance to certain governments and might therefore affect

the outcome of the negotiations for the Third Replenishment. The working party therefore agreed to recommend that some adjustment of voting rights was desirable.

(b) Schemes A and B

The working party discussed next which of the two schemes, A and B, set out in the Memorandum should be preferred. Some delegates preferred Scheme B because, as argued in the Memorandum, it would involve fewer complications and would avoid the need to explain to legislatures why in according votes under the adjustment scheme account should now be taken of contributions made subsequent to the initial subscriptions even though such contributions had been expressly stated to be made on a non-voting basis.<sup>1/</sup> Those who preferred Scheme A did so on the ground that if an adjustment were to be made, it was desirable that it should be as complete as possible. Discussion showed that several of the delegates who preferred Scheme B in principle none the less recognized the arguments in favor of Scheme A and that at this stage no delegate wished to oppose Scheme A. It therefore appeared that, subject to final consideration at the appropriate time of the overall outcome of the Replenishment negotiations, Scheme A might secure the unanimous consent of the Part I Members (which would be required because of the effect of the scheme on the pre-emptive rights of members). On the other hand, certain delegates expressed opposition to Scheme B. The working party therefore agreed to report to the Deputies that there was a consensus in favor of Scheme A. It was recognized, however, that no final decision could be taken at this stage on the method of adjustment of voting power since no decision had as yet been reached on a number of key questions such as the total level of the replenishment. The considerations referred to in paragraphs 3-5 of the Attachment were also relevant.

(c) Membership Votes

The working party was sympathetically disposed towards the objectives underlying the proposal in paragraph 7 of the Memorandum that provision should be made for additional membership votes to be accorded to members. The question was raised whether such votes could appropriately be accorded only to members making an additional subscription to the Third Replenishment, and, if so, whether such subscriptions must be for the full amount authorized for the member. It was agreed that this matter, together with other technical questions relating to it, should be considered further and that a memorandum should be prepared by the staff on it.

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<sup>1/</sup> Except in the case of the first six Swedish supplementary contributions in respect of which Sweden made certain reservations regarding the possibility of transforming these contributions into subscriptions carrying voting rights.

(d) Part II Members' Subscriptions

The working party agreed to recommend that the burden on Part II Members should be kept as light as practicable. It was pointed out that this might be accomplished by either or both of the following methods:

- (i) by reducing the cost of a vote to some figure below \$5,000;
- (ii) by providing that payment of Part II subscriptions should be on the same or less burdensome terms than those provided for in their initial subscriptions.

Some delegates pointed out that there were a number of Part II Members who could not reasonably be expected to make additional subscriptions unless the Third Replenishment became so large as to enable the Association to increase substantially the present figure of about \$300 per capita national income which has been adopted as a general guideline in deciding which countries are eligible for IDA credits.

There was unanimous agreement that payment of Part II Members' subscriptions should not be on more burdensome terms than were provided for their initial subscriptions. There were however differences of view within the working party on whether it would be appropriate to render the terms of such payment softer than initially. Similar differences emerged on the question of whether or not it would be appropriate to reduce potential payments of Part II Members through changing the cost of each vote.

Against this background the working party concluded that these matters would have to be considered further by the Deputies. A further discussion of this issue by the staff is attached to this report (Attachment A).

(e) Special Supplementary Contributions

The working party also considered whether special supplementary contributions, which might be made in the future in the interval between replenishments, should qualify the donor for additional voting rights. It was recognized that no final decision could be taken on this point except by the Association at the time when such contributions were offered. It was pointed out, however, that to give votes in respect of such contributions would be consistent with the principle of adjusting voting rights to take account of contributions. It was desirable to give as much incentive as possible to members to make supplementary contributions. It was suggested, however, that any votes given

as a result of such contributions should be given only at the time of the next general replenishment following the making of such a contribution, in order among other things to avoid too many small changes in relative voting power.

(f) Consultation with Part II Members

It was pointed out in the discussion that many of the questions dealt with in the Memorandum were of great interest to the Part II Members, especially that of the terms on which subscriptions might be accepted from them. They would, in any event, have an opportunity to discuss the whole scheme for the Third Replenishment when agreement had been reached amongst the Part I Members and proposals were submitted to the Executive Directors. It was suggested, however, that consultation with the Part II Members at some earlier stage than this might be desirable. The working party agreed that a decision as to the right time for such consultation was a matter for the Deputies.

(g) Amendment to Articles of Agreement

The working party agreed to recommend that an amendment to the Articles of Agreement should not be sought as a condition of the Third Replenishment since to do so might result in serious delay in bringing into effect the Third Replenishment. It was generally recognized, however, that none of the schemes for the adjustment of voting power so far considered provided a completely satisfactory solution for reasons referred to in Section (d) above. It was therefore agreed that a further study was desirable of a possible amendment of the Articles of Agreement. The staff would prepare a further memorandum on this subject as soon as practicable.

February 20, 1970

Memorandum by the Staff on Terms of Part II  
Members' Subscriptions under Schemes A and B

1. The staff suggests that the following considerations, which apply whether Scheme A or Scheme B is adopted, should be borne in mind. At any likely level for the total of the Third Replenishment, if Part II Members wish to maintain their relative voting power they would, unless the cost of a vote is reduced, have to make additional subscriptions in very considerable amounts. For example, under Scheme A1, if the total of the replenishment were \$1,800 million, the additional Part II subscriptions would be \$315 million, for a total of \$2,400 million the additional subscriptions would be \$450 million, while for a total of \$3,000 million the additional subscriptions would be \$550 million.<sup>1/</sup> While the real burden of additional subscriptions on this scale could be limited by providing that less than 10% of the Part II subscriptions should be made in convertible currency, the absolute amounts in local currency would be so large that it cannot be excluded that Part II Members would have difficulty in subscribing on that basis. Furthermore, it can be questioned whether it is appropriate for IDA to accumulate very large balances of local

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1/ Under Scheme B1, the comparable figures would be as follows:  
replenishment \$1,800 million: Part II subscription \$619 million -  
\$2,400 million: \$826 million - \$3,000 million: \$1,033 million.  
If no adjustment of membership votes was considered (Scheme AII  
and BII) additional subscriptions of Part II Members would in  
every instance be substantially higher.

currency 2/ in the form of Part II subscriptions, the greater part of which may not be released and capable of use for some time to come.

2. It can be seen, therefore, that there are two conditions which have to be met in any satisfactory solution: (a) that the accumulation of excessive amounts of additional local currency of the Part II Members should be avoided; (b) that no undue burden should be imposed on the Part II Members by requiring too high a contribution in the form of convertible currency.

3. There is a further consideration affecting the application of Scheme A to Part I Members which should be noted, namely, that if the

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2/ Currencies held by IDA not at present usable amount to about \$217,000,000. As of June 30, 1969 the initial subscriptions of Part II Members totalled \$261,160,000, of which \$26,116,000 was required to be paid under the Articles of Agreement in convertible currencies. In addition, as of January 31, 1970 releases by Part II Members of their currencies (including amounts released or agreed to be released in convertible currencies plus amounts released for local purchases and used) amounted to \$17.48 million, broken down as follows:

Greece	-	\$1,134,000	(effective July 1, 1970, at which date an equal amount will also be effectively released for purchases in Greece)
Iceland	-	\$90,000	
India	-	\$5,057,740	(for purchases in India)
Ireland	-	\$2,727,000	
Israel	-	\$1,512,000	
Jordan	-	\$270,000	
Mexico	-	\$1,011,623	
Panama	-	\$14,000	
Spain	-	\$2,029,572	(\$9,081,000 for purchases in Spain, of which \$2,029,572 has been used)
Yugoslavia	-	\$3,636,000	

total amount of replenishment were to fall short of about \$2,800 million the Scheme would not be feasible unless there were a reduction in the price of the vote. Under Scheme A, each Part I Member receives a relative share of additional subscription votes which is determined by its relative share of initial subscriptions and of total contributions through the Third Replenishment. This Scheme is feasible under two conditions:

- (a) no country should have to waive part of the votes it holds now; and
- (b) no country can be authorized to subscribe more than an amount equal to its contribution to the Third Replenishment.

4. Condition (a) implies that all adjustments would be made by authorizing additional votes, the country whose voting power is the highest in relation to its total contributions, namely, South Africa, receiving no additional votes. It follows that there is a minimum number of additional votes which must be given to all Part I Members in order to make the necessary adjustment. (A number larger than the minimum could be chosen in which case South Africa would also receive additional votes but it has not been thought necessary at this stage to illustrate the effect of such an arrangement.)

5. The votes thus given to each member when multiplied by the cost of a vote cannot, under condition (b), exceed the amount to be contributed by such member to the Third Replenishment. Since Sweden is the member whose voting power is the lowest in relation to its total contributions, its number of additional votes will therefore be the largest in relation to its contributions to the Third Replenishment. Therefore, condition (b)

results in a maximum amount for the cost of a vote, equal to Sweden's contributions divided by its number of additional subscription votes. Under the assumptions on which the Tables attached to the Memorandum are based, the maximum cost of a vote at the \$3,000 million level is \$5,368 and therefore the figure of \$5,000 used initially is acceptable. At the \$2,400 million level (\$1,800 million) the maximum cost of a vote is \$4,366 (\$3,376 respectively) and therefore a reduction of the cost of a vote is a necessary condition of the Scheme.

6. From the foregoing, it seems likely that a satisfactory solution may require that both the methods mentioned in Paragraph 3(d)(i) and (ii) of the Working Party's Report should be employed.