

**Enhancing the Voice of Developing Countries**  
**in the World Bank**

July 2004

Paper commissioned by the  
**German Ministry for Economic Cooperation and Development**

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**Contents**

<b>Executive Summary.....</b>	<b>III</b>
<b>Abbreviations.....</b>	<b>IV</b>
<b>1. Introduction.....</b>	<b>1</b>
<b>2. The Governance-Structure of the GEF: Exception or Model?.....</b>	<b>5</b>
<b>2.1 The Formative Phase: The Creation and Restructuring of the GEF.....</b>	<b>5</b>
<b>2.2 The Restructured GEF: Double Majority Voting in Practice.....</b>	<b>7</b>
<b>2.3 The Effects of Double Majority Voting Inside the GEF.....</b>	<b>10</b>
<b>3. The Governance-Structure of the World Bank: The Need for Reform.....</b>	<b>11</b>
<b>3.1 The Pros and Cons of Consensus Decision-Making.....</b>	<b>11</b>
<b>3.2 Issue Areas for Double Majority Voting in the World Bank.....</b>	<b>15</b>
<b>4. Summary and Recommendations: Getting Started with a Pilot Phase.....</b>	<b>17</b>
<b>References.....</b>	<b>19</b>

## **Executive Summary**

The paper looks into the pitfalls and promise of double majority voting as one element of a comprehensive reform package to enhance the voice of developing countries and countries in transition in the governance structure of the World Bank. It is argued that in order to effectively fulfill a mandate that is dramatically different from the one envisaged when the World Bank was created, the Bank must refashion its decision-making structure. Since there are, however, tremendous obstacles and reservations to the introduction of double majority voting, notably the legal requirement to amend the Articles of Agreement of the World Bank, it is argued that a two-year pilot phase approach should be pursued. This would leave time to inform others about the promise of the idea and to gather support from key constituencies. Very much like the GEF in its initial phase, a pilot phase approach would lower the resistance against “definite” commitments, while also leaving a chance for agreed-upon revisions in the light of lessons learned after a defined number of years. The time frame suggested by the Chairman of the Development Committee in his roadmap should be used to win broad-based support for such a prudent approach.

Double majority voting is essentially a concept pioneered in the GEF over the last decade in the sense of a true North-South partnership. Ownership and “voice” of all sides involved is an in-built feature of this innovative voting structure. Different stakeholders’ claims are appropriately respected, including donors without whom the GEF could not function and recipient countries whose cooperation and participation is required to enable the institution to achieve its objectives. And contrary to common belief, double, special or qualified majority voting is not unique to the GEF. The regional development banks are successfully operating with a number of requirements for special majorities of regional member votes, apparently without jeopardizing their financial solidity.

The arguments of financial solidity and the preservation of the World Bank’s AAA rating are, however, not taken lightly. General policies, budget and strategic matters should continue to be based on consensus decision-making, whereas operational matters, such as project, program and personnel decisions, would lend themselves as areas in which the two-year pilot phase with double majority voting should go ahead. On more practical terms, the eight (out of 24) mixed Part I and Part II country constituencies on the Executive Board of the World Bank could be asked to cast two separate votes during the pilot phase, one reflecting the view of their members from the industrialized countries, and a separate one for their members from the developing world and from countries in transition.

**Abbreviations**

ADB	=	Asian Development Bank
AfDB	=	African Development Bank
ATF	=	Analytical Trust Fund
BMZ	=	German Ministry for Cooperation and Development / Bundesministerium für wirtschaftliche Entwicklung und Zusammenarbeit
CBD	=	Convention on Biodiversity
CAS	=	Country Assistance Strategy
CODE	=	Committee on Development Effectiveness
COGAM	=	Committee on Governance and Executive Directors' Administrative Matters
CPIA	=	Country Policy and Institutional Assessment
EBRD	=	European Bank for Reconstruction and Development
FCCC	=	Framework Convention on Climate Change
GEF	=	Global Environment Facility
GET	=	Global Environmental Trust Fund
IADB	=	Inter-American Development Bank
IFIs	=	International Financial Institutions
IMF	=	International Monetary Fund
NGO	=	Non-Governmental Organization
MDGs	=	Millennium Development Goals
MPMF	=	Montreal Protocol Multilateral Fund
OECD	=	Organization for Economic Cooperation and Development
PRS	=	Poverty Reduction Strategy
PSIAs	=	Poverty and Social Impact Analyses
UN	=	United Nations

UNCED	=	United Nations Conference on Environment and Development
UNDP	=	United Nations Development Program
UNEP	=	United Nations Environmental Program
WTO	=	World Trade Organization

# **Enhancing the Voice of Developing Countries in the World Bank**

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## **1. Introduction**

The enhanced participation and voice of developing and transition countries in international economic and financial institutions has been on the international agenda for some time. The Millennium General Assembly of the United Nations in 2000 as well as the UN Conference on Financing for Development (Monterrey, March 2002) and the World Summit on Sustainable Development (Johannesburg, August 2002) listed this issue among their objectives. Within the World Bank the issue of an enhanced “voice and participation of the poor” has been discussed since the 2003 Spring Meeting and the Annual Meeting in Dubai in the fall of 2003. In Dubai, a consensus emerged that one was dealing with a multi-dimensional issue to be addressed in a wider context.

The World Bank has been under increased scrutiny for more than a decade with respect to the requirements of “good governance” that are closely related to the “voice” issue. Principles of transparency, accountability and participation must not only be applied to the borrowing governments but to the World Bank as well. However, some notable progress has been made on this front. Over recent years, significant steps have been taken to increase transparency and to make all sorts of data and information available to the public. With the creation of an independent inspection panel the World Bank has made Bank policies open for public accountability. In addition, World Bank operations and personnel have moved closer to the stakeholders in the developing world, thereby demonstrating a firm commitment to decentralize operations. And the introduction of the Poverty Reduction Strategy (PRS) in low-income and highly indebted countries has helped to lay the foundations for greater participation and ownership.

More closely related to the “voice” issue, the Executive Boards of the World Bank and the IMF have started to address the lack of capacity, notably among the two Sub-Saharan

African Executive Directors who represent 22 and 24 countries each in the World Bank. Steps have been taken to help build capacity in national capitals and to promote the use of communication technologies to enhance dialogue between Washington and capitals. An agreement to establish a new Analytical Trust Fund (ATF) was reached in December of last year. The ATF will provide additional policy advice and research support to the African chairs. In sum, the spring meeting of 2004 did not fail to notice that progress has been made on the “voice” issue. But the tough problems still remain to be dealt with.

The complex problems of participation and representation need to be addressed within the “voice” issue as well. Progress on this front has been incremental, if existing at all. In that sense, nothing but first and relatively “easy” steps towards comprehensive reform have been taken so far. But the key Monterrey promises must go beyond capacity building. Some important alternatives and possible elements for a reform were already listed in a World Bank progress report from September of last year (World Bank 2003). But the Chairman of the Development Committee rightly pointed out in his letter dated March 29, 2004 that one is dealing with “sensitive and complex political issues” with respect to voting rights and the operation of the Boards, whereby agreement “is likely to be postponed for some time” (Manuel 2004). The roadmap on process and procedures suggested by the Chairman of the Development Committee this March indicated the broad contours of a comprehensive reform package and made a suggestion on how to proceed from this year’s Spring Meeting onwards. His roadmap listed a threefold set of tasks for the next two years (Manuel 1994): Firstly, to ask the Boards of Directors to report on options for addressing the issue of Basic Votes over the next year; secondly, to ask the Boards of Directors to report within two years on options for addressing those situations where countries’ quotas/capital shares are egregiously out of line with their economic strength; and thirdly, to establish an independent “Eminent Persons’ Group” to evaluate the composition, structure and functioning of the Boards and to come up with recommendations over the next year. Therefore, provided that agreement were reached over reform on basic votes, quotas/capital shares and the composition and structure of the Boards, a comprehensive reform package could be on the table prior to the Annual Meeting in the fall of 2006. It should be noted, however, that at this stage most countries want to deal simultaneously with reform packages for the World Bank and the IMF. And they favor a reform package including an increase in quotas at the IMF coupled with an increase in capital shares at the World Bank.

The suggested time table of the roadmap is keeping an implicit eye on the upcoming presidential elections in the United States in November of this year. There is a question mark as to whether substantial reform can go ahead prior to that date. But this should not be taken as a welcome excuse by other actors to delay any meaningful progress on reform until next year.

The official German view on the “voice” issues is decisively in favor of a comprehensive and substantial reform package including a change in the present voting and capital structure of the World Bank. This position was summarized in a position paper by the German Ministry for Cooperation and Development (BMZ) in the fall of last year (BMZ 2003). It is based on three sets of recommendations. With respect to the PRS process Germany is arguing that efforts to strengthen ownership have often not gone far enough. Therefore, a further strengthening of the principle of ownership is advocated in order to ensure that developing countries participate more closely and effectively in the formulation and initiation of World Bank programs in their countries. Rather than supporting the impression that the “final approval” of the PRS is granted in Washington, the World Bank should make better use of local knowledge by deliberately including and strengthening local institutions and capacities in the borrowing countries. It is argued that a sustainable and successful PRS should be anything but a blueprint since local conditions, institutions and capacities differ. To make substantial progress towards achieving the Millennium Development Goals (MDGs), there is no alternative to solutions that are genuinely “country-driven”.

With respect to voting and decision structures in the World Bank the German Development Minister favors a substantial increase in basic votes of the 149 developing countries bringing them back to their original level, thereby increasing their relative weight from the current 40 percent to 43 percent. It is also recommended to maintain the ratio of basic votes to total votes in the future, thus preventing the significant erosion in the proportion of basic votes to total votes that has happened over the last decades. With an increase in basic votes the World Bank should be better able to achieve the commitment and cooperation of those members whose “voice” must be heard when the Bank wants to fulfill its mandate. In addition, the position of the developing countries



could be further strengthened by changing voting procedures in Board meetings. By introducing double majority voting defined as a majority of shareholders and a majority of developing countries, as has been practiced in the Global Environment Facility (GEF) for the last decade, developing countries should be better positioned to make their views heard and reckoned with. However, in order not to jeopardize the World Bank's financial stability and triple AAA rating the German plea for the introduction of double majority voting would be strictly limited to decisions taken at the operational level (e.g. projects and personnel), while all financial and strategic matters would be dealt with according to the familiar decision-making procedures as laid out in the currently valid articles of agreement.

The purpose of this paper is to look deeper into the last recommendation – the introduction of a selective double majority voting in Board meetings and the likely consequences and implications thereof. What are the promise and pitfalls of selective double majority voting? To answer this question section one will explore the experience gained and the lessons learned with the double majority voting in the GEF over the last decade. What were the circumstances and underlying interest structures that brought the double majority voting inside the GEF into being? Are the developing countries in the drivers' seat in the GEF and what, if any, drawbacks of this voting system did occur? Section two will explore the legal and procedural consequences of the suggested introduction of the double majority voting in the World Bank. How, to what extent and where exactly can the double majority voting be applied to the Board meetings in the Bank? Are the intended effects likely to occur? And how likely is it that the introduction of selective double majority voting will lead to a different culture in voting behavior by increasing the participation and ownership of developing countries? The paper concludes with a set of recommendations that can be fed into the negotiations following the roadmap over the next two years.

Reactions to the German idea have thus far been mixed and plagued by ignorance about how double majority voting could work in the World Bank context. Given this rather lukewarm reaction a pilot phase approach could demonstrate the benefits over a limited number of years, thereby lowering the likely resistance against the necessary amendments of the articles of agreement. Very much like the GEF in its initial phase, a pilot phase

approach would lower the resistance against “definite” commitments while also leaving a chance for agreed-upon revisions after a defined number of years.

## **2. The Governance Structure of the GEF: Exception or Model?**

### **2.1 The Formative Phase: Creation and Restructuring of the GEF**

The different governance structures of the GEF in its pilot phase (from 1991 to 1994) and in its restructured phase (since 1994) are very much – as is the case with any other international institution – a product of the specific distribution of power, interests and ideas at the time of their creation. The World Bank and the IMF were largely products of the hegemonic role of the United States in 1944, thus mainly reflecting U.S. interests combined with lessons drawn from the failures of the 1930s and the imminent needs of post-war reconstruction. The GEF, on the other hand, started from the backdrop of a Franco-German financial commitment at the end of the 1980s at a time when – at the early preparatory stages of the United Nations Conference on Environment and Development (UNCED) – Northern awareness and concern about global environmental problems began to require international action. The developing countries, contrary to their non-existing role in 1944, were well aware at the end of the 1980s that steps to moderate global environmental threats emanating from or located in the South – notably the loss of biodiversity and issues related to climate change – could only be taken with their cooperation, consent and participation.<sup>1</sup> They were unwilling to consider transboundary and global environmental problems in their national politics and development plans “unless additional funds from the industrial countries would be made available” (Streck 2001: 72). The availability of these “new and additional funds” from the North was seen as the prerequisite for cooperation of the South. Contrary to their relatively weak bargaining position in the debt crisis, the developing countries were confident that their cards were much better in international environmental negotiations.

The development of the GEF gained momentum when another international environmental governance structure began to move ahead. In the wake of the ‘Montreal Protocol on Substances That Deplete the Ozone Layer’ signed in 1987, three years later formal agreement was reached over a Multilateral Fund (MPMF) to finance the

withdrawal of developing countries and countries in transition from the production and use of ozone-depleting substances. Funds were made available from the developed countries to offset the incremental costs of projects defined as the extra costs incurred in the process of redesigning an activity to non-ozone-depleting technologies (ODT) vis-à-vis a baseline plan including ODTs. Although based mainly on consensus decision-making, in case of dispute the MPMF operates with double majority voting, whereby decisions require a two-thirds majority vote that must represent a majority among the seven members of the executive council from the developed world in addition to a separate majority among the seven other members from the developing world.<sup>ii</sup> The creation of the MPMF exclusively financed by the developed countries can be seen as a victory for developing countries, whereas a compromise prevailed with respect to the structure and decision-making. Both sides of the North-South divide must work together to effectively reduce and eliminate the production of ODTs. Neither the IMF/World Bank structure favored by the developed countries ('one dollar – one vote') nor the UN structure favored by the developing countries ('one country – one vote') prevailed. Interestingly enough, once the decision-making structures were operating both sides discovered that the concerns they had voiced prior to the creation of the MPMF became largely irrelevant. Consensus decision-making has been the rule to the present day.

With respect to the nascent GEF, however, rapid action was perceived as one way by the developed countries to keep the drivers' seat. With the World Bank in the lead, it took only a year from the Franco-German financial proposal to finalized negotiations by the end of 1990. After additional pledges had been made to the Global Environmental Trust Fund (GET), the three-year GEF pilot phase was launched with the responsibility for the implementation of projects shared between UNDP, UNEP and the World Bank as implementing agencies. With hardly any formal or informal governance structure and the World Bank serving as administrator, taking care of the day-to-day control of the GEF activities, coordinating the projects and chairing the meetings of the GEF participants, the GEF got on its way as a "loosely structured, action-oriented entity" (Streck 2001: 73) heavily dominated by the World Bank.

From the very beginning, the critics of the GEF were up in arms. They scathed the dominant role of the World Bank and the OECD countries, deplored the limited role given

to environmental NGOs, lamented about the limited transparency and participation on all levels and criticized the application of the policy of incremental costs as a new form of unwelcome conditionality. Deliberately designed as a pilot phase, it became obvious early on that the GEF would have to undergo major changes to win back the support of the developing countries and the NGOs. This urgent need for reform was reiterated by the conference of the parties of the Convention on Biodiversity (CBD) and of the Framework Convention on Climate Change (FCCC) signed at UNCED in 1992. The conferences of the parties of the two Conventions accepted the GEF as their financial mechanism on an interim basis, while also insisting that the GEF would have to follow the principles of good governance it was lacking so obviously in its pilot phase. A permanent relationship between the GEF and the CBD and FCCC was made contingent upon reforms within the GEF that would promote further transparency, accountability, democracy and universality of participation. The developed countries and the World Bank, on the other hand, argued in favor of the governance structure of the Bretton Woods system and held up high the notions of efficiency, cost effectiveness, and strong management for the GEF.

The negotiations for the restructuring of the GEF began in the fall of 1992 and were finalized with the adoption of the “Instrument for the Establishment of the Restructured Global Environment Facility” in the spring of 1994. The new charter explicitly pledges in its preamble “to ensure a governance that is transparent and democratic in nature, to promote universality in its participation and to provide for full cooperation in its implementation among the UNDP, UNEP and the World Bank” (GEF 1994). With the focus on good governance and democracy, the restructured GEF was clearly reflecting the political climate and the dominating ideas of the early 1990s.

## **2.2 The Restructured GEF: Double Majority Voting in Practice**

In many ways, the restructured GEF can be interpreted as a bridge or compromise between the UN system dominated by the developing countries and the World Bank dominated by the industrialized countries. Neither side was able to get its way, thus turning the restructured GEF into a unique and pioneering institution (Boisson de Chazournes 2003) that was loosely based upon the experience gained with the MPMF.

The Assembly of the GEF members meets every three years and consists of representatives of all participant countries.<sup>iii</sup> It reviews the GEF's general policies and the operations of the Facility. The Council is the main governing body of the restructured GEF. Meeting every six months, the Council comprises 32 members, representing 16 members from developing countries, 14 members from developed countries and 2 members from the countries of central and eastern Europe and the former Soviet Union. As long as the GEF serves as the financial mechanism for the CBD and the FCCC – that is to the present day - the Council receives formal guidance from the conferences of the parties to the Conventions and is accountable to them. The GEF Secretariat services and reports to the Council and Assembly. It coordinates with the Secretariats of the Conventions and translates the decisions by the Assembly and Council into reality. As in the pilot phase, UNDP, UNEP and the World Bank serve as the implementing agencies for the GEF.

For the purpose of this paper, the most interesting part of the GEF is the double voting structure. Again, it can be read as a compromise between the Bretton Woods and the UN model of decision-making. Para. 25 (b) of the Instrument for the Establishment of the Restructured GEF” states that “decisions of the Assembly and the Council shall be taken by consensus” (GEF 1994). Where decisions cannot be reached by consensus, “a formal vote by the Council shall be taken by a double weighted majority, that is, an affirmative vote representing both a 60 percent majority of the total number of Participants and a 60 percent majority of the total contributions” (GEF 1994: Para. 25 (c)). Again, as with the MPMF, although slightly different, neither the developed nor the developing countries are able to prevail on their own. The consensus-oriented decision-making and the double majority voting reflected the understanding of the two major groups involved that successful policies to moderate global environmental degradation emanating from the South depended upon the cooperation and participation of every member, including the members from the developing countries. Hence, a deliberate attempt was made to build the GEF from the start to “an exacting standard of good governance” (Woods 1998: 94). To be effective in addressing the specified international environmental problems, the GEF had to be rebuilt in the sense of a true North-South partnership. The double majority voting brought the developing countries back on board and undoubtedly contributed to a

strengthening of ownership although contentious issues like limited financial resources made available by the developed countries in the replenishments and the incremental cost principle remained.

It should also be noted that the machinery for taking formal votes in the GEF is “rather cumbersome” (Woods 1998: 95). The “Rules of Procedure for the GEF Council” (GEF 1994a: Para 37-45) stipulate that votes require a written text of the motion that must be distributed to all members at the meeting prior to the meeting during which the formal vote will take place, that members are allowed to make statements before the announcement of the start of voting or after the results of the vote have been announced, and so forth. Not surprisingly, votes have never been taken since 1994. Operations of the GEF assembly and council have proceeded without major confrontation. The two chairmen of the restructured GEF heralded the advice given by John Maynard Keynes to the planned IMF in a written note to Jacob Viner in 1943: “in actual working voting power is not likely to prove important. If the organization begins voting about everything, it will not be long before it breaks down” (Gianaris 1991: 920).

It is no exaggeration to claim that the GEF is praised in the literature as a symbol for the needed cooperative spirit and vision to effectively fulfill its mandate. “Innovative”, “unique” and “role model” are common characterizations of the restructured GEF. And the record of the GEF is equally impressive: “During its first decade, GEF allocated \$4.2 billion, supplemented by \$11 billion in co-financing, for more than 1,000 projects in 160 developing countries and countries with transitional economies” (Christoffersen et al. 2002). The following quote sums up nicely the experience and lessons learned: “Despite the differences in resources, ideology and interests among the Participants there is a common denominator accepted by all countries that cooperation is necessary to address global environmental issues. Altogether cooperation between North and South in the GEF is still better than in other forums. The increasing participation of developing countries over the years indicates a generally positive outlook of the GEF” (Streck 2001: 85). However, as the three independent evaluations of the GEF demonstrated (GEF 1994b, Porter et al. 1999, Christoffersen et al. 2002) not everything is coming up roses. The GEF project cycle is one of the most complex and cumbersome in the whole international system, the relationship between the conferences of the parties and the GEF leads to

overly complex structures and processes, the sheer number of actors and institutions involved is sometimes resented as a weakness rather than a strength, the understanding of the GEF is very weak within many recipient countries, and so forth. In sum, the GEF is anything but perfect. But as a learning organization built on a cooperative approach, these problems are openly addressed and dealt with. The independent evaluations are a strong sign of the culture of transparency, monitoring and accountability that have come to symbolize the GEF.

### **2.3 The Effects of Double Majority Voting Inside the GEF**

A closer look at the GEF's governance structure reveals that – other than during the pilot phase – issues of governance have not hampered the development, effectiveness and performance of the institution. A double majority voting works towards consensus by restructuring the weight of arguments during a meeting. Although votes have never been taken within the GEF, the hypothetical vote on the basis of a double majority is able to ensure that all claims by different stakeholders are appropriately reflected in the consensual decisions. Ngaire Woods (1998: 93) described the behavior of the actors as follows: “consensual decisions will ... be arrived on the basis of informal tallies of “would-be” votes based on opinions expressed around the table. In this sense, the double voting structure adds an important note of equal accountability – to contributors to the Fund and to recipient countries that host projects – while not detracting from the basic membership rights of all (otherwise equal) participants.” Ownership and “voice” of all sides involved is an in-built feature of double majority voting. Different stakeholders' claims are appropriately respected, including donors without whom the GEF could not function and recipient countries whose cooperation and participation is required to enable the institution to achieve its objectives. The amount of financial contributions to the GEF, however, remained in firm control of the developed countries.

As personal communication with staff from the GEF secretariat and the World Bank showed, the exercise of strong ownership and full participation by Council members from the developing countries is depending upon a high degree of technical expertise and pronounced concern about the environmental problems involved. Although often supported by representatives from the NGO community who are allowed to attend

Council meetings – yet another innovative feature of the GEF – not all Council members from the developing world have the necessary knowledge base and strong interest to make the voice of the poor heard and reckoned with in decisions. The key to effective participation and influence in discussions is resources, intensive preparation and the caliber of support staff. The rotation of personnel and the amount of workload to be shouldered for competent participation in Council meetings is not always guaranteeing that the interests of the poor are really represented from the start. As we know from the analyses of policy-cycles, key decisions are already taken at the defining stages of a problem and during the agenda-setting phase, not necessarily when it comes to choose among different options for decisions. Contrary to the Executive Directors at the World Bank who operate in “continuous session ... and shall meet as often as the business of the Bank may require” (World Bank 1989, Article V, Section 3 (e)), the GEF Council is only meeting twice a year. Whereas the Bank’s directors might – at least in theory – be able to influence decisions already in their formative phase, members of the GEF council are bound by two constraints: the guidelines issued by the conference of the parties of the environmental conventions and by the fact that the GEF Council is meeting only twice a year. Therefore, the capacity problem should not be neglected in any advocacy of double majority voting. Every effort must be made to ensure that there is a level playing field for all members around the table.

### **3. The Governance-Structure of the World Bank: The Need for Reform**

#### **3.1 The Pros and Cons of Consensus Decision-Making**

Contrary to common belief, double, special or qualified majority voting is not unique to the GEF. Other than with the MPMF, qualified majority voting has been a central feature of the European Union since the middle of the 1980s leading up to the Common Market in 1992. The regional development banks have also a number of requirements for special majorities of regional member votes, apparently without jeopardizing their financial solidity. In the Inter-American Development Bank (IADB), special majorities of regional members are required for capital increases, quorum, Board seats, selection of President, suspension of membership and termination of operations and distribution of assets. The African Development Bank (AfDB) has similar provisions on the Board seats, election of the President and amendments of the Articles. Regional members’ share of total voting



power is fixed at 60 percent. In the Asian Development (ADB), regional members' share of capital stock may not fall below 60 percent. And in the European Bank for Reconstruction and Development, the share of capital stock held by countries which are members of the European Community may not fall below a majority. Clearly, the Bretton Woods institutions are the exception, not the rule.

The decision-making procedures of the World Bank are dominated by Article V, Section 3 (b): "all matters before the Bank shall be decided by a majority of the votes cast", whereby these votes are based on the two hundred fifty votes held by each member plus one additional vote for each share of stock held (World Bank 1989, Article V, Section 3 (a)). Since the amount of stocks is depending upon relative economic and financial strength, the developed countries hold a clear majority within the World Bank. The current share of all 30 OECD countries amounts to 62.7 percent. The share of the 35 industrialized countries or high-income-countries according to the World Bank classification amounts to 60.04 percent. Nevertheless, on a number of matters, special majorities are required as well. Votes by the Board of Governors require a quorum of a majority of the Governors exercising at least two-thirds of the total voting power (Article V, Section 2 (d)) and votes by the Executive Directors require a quorum of a majority of the directors exercising at least one-half of the total voting power (Article V, Section 4 (f)). Several other specific actions by the Governors and Executive Directors require special majorities of total voting power, principally increases in capital (75 percent majority), increases in the number of Executive Directors (80 percent majority), and amendments to the Articles, which require approval by three-fifths of the members, having 85 percent of the total voting power (Article II, Section 2 (b) and Article VIII (a)).<sup>iv</sup> Other decisions requiring special majority votes relate to financial and administrative aspects of the Bank's structure. In practice, however, votes are rarely taken in Board meetings and consensus decision-making has developed as the standard procedure for most of the time.

While the basic structure of the World Bank is characterized by consensus decision-making against the back drop of the predominance of the developed countries, special majorities are essentially of interest to permit a smaller group of countries or just one country – given that the United States currently control 16.40 percent of the votes – to

block or veto decisions by a larger group. This decision-making structure puts the developing countries in a clear minority position, thereby risking the alienation of the borrowers whose cooperation and participation is essential to enable the Bank to achieve its objectives. It is no wonder that the developing countries have attacked this governance structure since the end of the 1960s. Consensus decision-making has apparently not helped to reduce this grudge. How were and are the decision-making structures of the World Bank defended by their proponents? And what are the merits of seriously considering the introduction of double majority voting?

The proponents of consensus decision-making have insisted that this procedure – while not obscuring the underlying structure of power – is opening up space for developing countries to make their views heard. Under these circumstances, a good and strong argument will not go unnoticed. The “voice” of those who would not be able to win a vote will be listened to and they do have a forum to argue and even win their case on merit. The “sense of the meeting”, the consensus, must include the minority’s point of view. In sum, the proponents of consensus decision-making cannot see anything wrong with current procedures.

In practice, to win a case on merit capacity is one key constraint. It takes time, preparation and highly trained staff to convince others of the quality of one’s argument. The constituencies of developing countries encounter disadvantages in this respect (e.g. because the number of members and the co-ordination requirements, skills of backstopping staff in the capitals, etc.). Yet, one should not neglect the effects of the underlying asymmetries in power. In his “sense of the meeting”, a good chairman will always make every effort to include some of the arguments voiced by the minority but ultimately the view of the majority will prevail. Voting power thereby does always implicitly – if not explicitly – affect outcome and all participants are always aware of it. At the same time, the standards of transparency and accountability held up high elsewhere in the Bank’s operations tend to be obscured by the voting structure and consensus-based procedures on the Board.

The price to pay for maintaining the current decision-making structure is to risk further alienation of those whose consent, goodwill and participation is needed to meet the

Bank's vision to succeed as the "anti-poverty machine for the 21<sup>st</sup> century" (Edwards 1999: 182). The necessary ownership of borrowers will not be achieved by going on to pretend that they are equals on the Board when, in fact, they are not. Therefore, in order to effectively fulfill a mandate that is dramatically different from the one envisaged when the World Bank was created, a strong case can be made that the Bank must refashion its modes of operation.

On a more practical level, as has been noted in the past (World Bank 1992 and Woods 2001), the Board has been hampered in its attempt to adequately hold Bank staff and management to account for several reasons. Many Executive Directors are in the job only for a short time, staff and management of the Bank tend to hide internal disagreements from the Board, and many decisions are taken prior to Board meetings in the five committees (Personnel, Audit, Budget, COGAM, and CODE) and/or in separate negotiations. Therefore, "controversial cases and stand-off debates are rare" (Woods 2001: 87) although abstentions and objections have occurred in the past. In addition, the Executive Directors from many developing countries have not always helped either given that their prime interest is to get controversial projects through rather than having these projects opened up to peer pressure and possible redesign or reversal. "Ownership" is not always interpreted in favor of the poor.

As we have seen, the requirement to amend the Articles of Agreement is the major stumbling block for the introduction of double majority voting as the new decision-making structure in the Bank. Another is the historically developed structure with eight "mixed" or "multi-country constituencies"<sup>v</sup> out of 24, whereby developed and developing and/or countries in transition are grouped together and have to cast their votes on the Board of Directors "as a unit" (Art. V, Section 4 (g)) although fundamental differences on the issues at hand may prevail.

Whereas a selective capital increase would require the approval of the Board of Governors by a 75 percent majority of total voting power (and the agreement of non-subscribing members not to exercise their preemptive rights), amending the Articles of Agreements, as illustrated above, depends on a 85 percent majority of total voting power. Therefore, near-unanimity seems to be a prerequisite for being able to carry the double majority voting

forward in a formalized way. Every effort should be made to achieve unanimity when introducing such a major voting reform. If resistance to such a reform appears to be relatively strong at first, a more prudent approach should be taken.

### **3.2 Issue Areas for Double Majority Voting in the World Bank**

Not even the proponents of double majority voting would insist on replacing the existing decision-making structure in full. As we have seen with the GEF, double majority voting is largely limited to operational matters, whereas strategic matters remain with the conferences of the parties of the environmental agreements, while the amount of financial contributions is remaining under full control of the developed countries. Control over their financial commitment is clearly a top priority for all developed countries. A Bank run exclusively by the borrowing countries is out of the question. The World Bank is depending upon a good reputation on financial markets (triple AAA rating) to be able to raise funds at low interest rates. Therefore, not a single voice in the reform debate is willing to risk this financial solidity and life line of the World Bank. Anything related to strategic and general policies, profit distribution, and so forth, should be kept under the current voting structure subject to further more fundamental reform.

As we have seen, however, with the regional development banks, clearly spelled-out and specific special majorities of regional members, that is developing countries, do not jeopardize a triple AAA rating. In addition, they provide the benefit of fostering the identification of the main borrowers with the objectives of the institution, while also better meeting the general requirements of accountability and participation. What specific areas would lend themselves to double majority voting at the World Bank?

The operations of an institution are carried out with the general objectives and the strategic guidelines in mind. Whereas the latter should be formulated with as much consensus as possible, the former are based on specific and case-by-case interpretations where opinions might differ. If one wants to increase ownership of the borrowers in the day-to-day business, it is at this stage where double majority voting should come in. To exercise effective control of staff whose work is reaching the Board in the form of project

and program proposals, the developing countries should really be more in the driver's seat without being able to manipulate projects to an exclusive advantage. The interests of donors and borrowers would be better reflected in projects and programs accepted by double majority voting rather than by consensus dominated by the majority.

The Articles of Agreement of the World Bank list another item among the "ordinary business of the Bank" carried out under the direction and subject to the general control of the Executive Directors (World Bank 1989, Article V, Section 5 (b)): the "organization, appointment and dismissal of the officers and staff." Since programs and projects should be designed with a high level of participation by those affected by them, double majority voting for staffing decisions could be another way to increase borrowers' ownership with the Bank. This is not to say, of course, that every appointment or dismissal in the Bank should be subject to double majority voting on the Board. Identification with the Bank's objectives and procedures will increase on the side of the borrowers if the general requirements for recruiting, the guidelines for structure and background of staff and the broad organizational outlook of the Bank are made subject to double majority voting. The experience with the GEF would suggest that consensus will continue to be the rule. But this consensus will be shared more deeply by the developing countries.

How could the introduction of double majority voting operate in more practical terms? As recommended, decisions on project loans and programs could be made subject to double majority voting. In addition, all matters on the agenda of the Personnel Committee of the Executive Board, such as compensation, benefits, diversity of staff etc., would also fall under double majority voting. This would translate into two rounds of decisions to be taken by the Board on these issues during the two-year pilot phase, one by the industrialized countries and one by the developing countries and the countries in transition (in cases where a formal vote is deemed to be necessary because of a lack of consensus among the board members). For a loan or program to pass, two different majorities would be required.

But we would still be left with the problem of the "mixed constituencies". How are these eight multi-country constituencies on the Board to be dealt with? One way to handle this problem is to ask the eight "mixed constituencies" to operate not as a unit during the pilot

phase with respect to the decisions subject to double majority voting but to cast two separate votes, one with the group of industrialized countries reflecting the view of the respective members and another with the group of developing countries and countries in transition. This way, there would be a separate majority among the 13 Executive Directors representing the industrialized countries (five plus eight) and another majority among the 19 Executive Directors representing the developing countries and countries in transition (eleven plus eight).

As said above, actual votes are hardly ever taken in the Board's day-to-day business but the underlying voting power implicitly affects the outcome of discussions. Although there is a justification for the Board coming to a more formal procedure by which some votes *are* actually taken, in principle the current procedure could be maintained. Double majorities should then impose a "second and additional filter" for the implicit calculation of majorities. Mixed constituencies do not actually have to cast their votes but could also distinguish between contrasting positions of Part I and Part II members in their oral or written statements. This procedure is nothing new to IFIs but is already being used in the regional development banks with mixed (regional/non-regional) constituencies.

Since this recommended procedure would leave the "mixed constituencies" with an additional workload, they could be compensated by additional capacity enhancing measures financed by the reform group of industrialized countries willing to push the double majority voting forward.

#### **4. Summary and Recommendations: Getting Started with a Pilot Phase**

It is certainly true that the GEF and the World Bank do not lend themselves easily to comparisons. While the former has started to operate in restructured form only a decade ago and is characterized by a limited mandate, scope and size of operations, the latter is clearly one of the most – if not the most - important player in the field of development with a significant size, scope and a broad-based mandate. And yet, the guidelines for good governance, participation and accountability should not only apply to the restructured GEF.

A double majority voting defined for practical purpose as a majority of votes, on the one hand, and a majority of Part II country votes, on the other hand, has been identified in this paper as an important step in the current attempt to increase the voice and participation of developing countries and transition countries in the World Bank. The time frame suggested by the Chairman of the Development Committee in his roadmap should be used to win broad-based support for this concept. However, since the voting structures in the Bank are clearly spelled out in the Articles of Agreement, there appears to be no alternative to a formal amendment if one wants to permanently introduce a new structure.

Again, the experience with the GEF can show a way out. The GEF started at the beginning of the 1990s with a pilot phase approach. Applied to our issue, such an approach falls short of a formal amendment while leaving time to gain experience with this new voting structure. If agreement can be reached among shareholders that for a limited amount of years, a limited amount of matters and subject to proper evaluation a double majority voting should go ahead then there is no immediate need for an amendment of the Articles of Agreement. After a defined number of years, a two-year pilot phase is suggested, and depending upon the lessons learned the approach might be finalized with an amendment of the Articles of Agreement. The pilot phase approach should be pursued to win over the opponents and to prove the merits of the idea. The time frame suggested by the Chairman of the Development Committee in his roadmap – an ‘Eminent Persons’ Group’ reporting back on issues relating to composition, structure and functioning of the Board within a year – should be used to win broad-based support for the pilot phase approach on the voting issue. The introduction of double majority voting, albeit only on operational matters (projects, programs, personnel) and limited to a two-year pilot phase will be seen as a clear signal that the World Bank is willing to apply the requirements of accountability and participation to itself, thereby presenting the Bank as a learning organization. Moving forward the “voice” issue, nobody should settle for less.

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## Notes

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- i On the creation, pilot phase and restructuring of the GEF, see Anderson (1995), Bowles (1996), Dernbach (1993), Ehrman (1997), Fairman (1994, 1996), Jordan (1994, 1995), Mott (1993), Sharma (1996), Sjöberg (1994, 1996, 1999), Streck (2001), Wells (1994), Wood (1993) and Young and Boehmer-Christiansen (1997).
- ii On the decision-making structure and the creation of the MPMF, see Biermann (1997) and DeSombre and Kauffman (1996).
- iii For the following section, see Streck (2001) and GEF (1994).
- iv Acceptance by all members is required for any amendment of the Articles which would modify the right of members to withdraw from the Bank (Article VI, Section 1) or to exercise preemptive rights in subscription to shares (Article II, Section 3 (c)) or would alter the limitation on liability on share to the unpaid portion of the issue price (Article II, Section 6).
- v The Executive Director currently sent by Austria (with countries in transition such as Kazakhstan and Belarus in this voting group), the Executive Director currently sent by Venezuela (with Spain as the largest share holder in this voting group), the Executive Director currently sent by the Netherlands (with countries in transition such as Ukraine and Romania), the Executive Director currently sent by Canada (with developing countries such as Jamaica and Guyana), the Executive Director currently sent by Italy (with Timor-Leste and Albania), the Executive Director currently sent by New Zealand (with Cambodia and Mongolia), the Executive Director sent by Iceland (with the three Baltic countries Estonia, Latvia, and Lithuania), and the Executive Director sent by Switzerland (with countries in transition such as Azerbaijan and Uzbekistan).