



DEVELOPMENT COMMITTEE  
(Joint Ministerial Committee  
of the  
Boards of Governors of the Bank and the Fund  
on the  
Transfer of Real Resources to Developing Countries)

**DC2016-0003**  
March 25, 2016

**DYNAMIC FORMULA  
INTERIM PROGRESS REPORT TO GOVERNORS**

Attached is a document entitled “Dynamic Formula - Interim Progress Report to Governors” prepared by the World Bank Group for the April 16, 2016 Development Committee meeting.

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## Dynamic Formula

### Interim Progress Report to Governors at Spring Meetings 2016

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#### I. Introduction

1. The 2015 Shareholding Review Report to Governors<sup>1</sup> ('the Report') included a commitment to work by Executive Directors to develop a dynamic formula based on the formula guidance contained in the Report, aiming to conclude by the 2016 Annual Meetings with an interim progress report in the Spring. This interim report takes stock of the work so far on the dynamic formula which is grounded in the shareholding review principles defined in the Report.
2. The shareholding review principles defined in the Report and endorsed at the Lima Annual Meetings stated that:
  - (a) *Regular shareholding reviews will take place every 5 years based on agreed principles and a dynamic formula.*
  - (b) *The guiding principle for shareholding realignments is to achieve an equitable balance of voting power. This can be assessed by looking at the balance of voting power between country groups and/or under-representation country-by-country.*
  - (c) *As a global cooperative, all voices are important. Where possible decision making is by consensus. All members have basic votes, protected in the constituent documents of the respective WBG entities.*
  - (d) *The smallest poor member countries shall be protected from dilution of their voting power*
  - (e) *Shareholding brings both rights and responsibilities, and all shareholders have an interest in the long term financial sustainability of the WBG, including IBRD and IFC's AAA credit rating, contributing in line with their capacity to do so.*
3. The Report also included formula guidance that stated:
  - (a) *The formula should reflect and be consistent with the roles and responsibilities of shareholders in the WBG.<sup>2</sup>*
  - (b) *The formula should be simple and transparent, producing results that can be readily understood and that are broadly acceptable to the membership.*
  - (c) *It should be based on readily available, timely and high quality data, and should capture broad economic trends avoiding excessive volatility.*
  - (d) *It will be based primarily on economic weight and the WBG's development mission, including measures of GDP and IDA contributions. Other variables that are*

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<sup>1</sup> 2015 Shareholding Review Report to Governors, DC2015-0007

<sup>2</sup> The term "roles" refers to the different parts shareholders play in the World Bank Group, for example as providers of capital, as clients for its services and as participants in its governance. The term "responsibilities" refers to what is expected of shareholders in their roles, for example their support for its mission, their participation in its decision making, their financial contributions to its capital and to its work in the poorest countries through IDA.

*consistent with this guidance may be considered.*

*Shareholding Reviews will base their work on the output of the formula which will give clear guidance for adjustments in shareholding.*

4. This guidance has informed the program of work so far undertaken, which has included several formal engagements, open to all Executive Directors on an Equal Basis, as well as informal meetings and technical briefings. A Formula Simulation Tool has been developed and made available to all Executive Directors. The work program continues with a view to reaching agreement by the 2016 Annual Meetings.

## **II. Working approach**

5. The formula work is being carried out in an open, inclusive and transparent process with data made available to all Directors and simulations of different options for the formula prepared by a dedicated team in the Corporate Secretariat and made available to all. On sequencing, it was decided to first consider the options for each of the primary components of the formula (as in (d) above) and then, when that work is well advanced, discuss the functional form of the formula and the weights to be attached to its components. As discussion moved forward it became clear that simulations of formula options were important to bring out the implications of the choices for each of the primary variables.
6. There is agreement in line with the formula guidance that the economic weight (measures of GDP) and the development mission (measures of IDA), are the two core components of the formula.. The formula should respect the guidance by being simple, transparent, and easy to use with results that can be readily understood and explained. Executive Directors also reiterated Governors' commitment to protect the smallest poor countries in a shareholding review; such protection could be done 'outside' the formula although the modalities need further consideration.
7. To support the consideration of options for a formula combining GDP and IDA measures, a formula simulation tool was developed by the Corporate Secretariat and made available to all Executive Directors and their staff to allow them to explore different options. The formula tool allows users to readily test the impact of changes to the weights and definition of the GDP and IDA variables on the calculated shareholding of both individual countries and constituencies. It is hoped that the availability of the simulation tool is building better understanding of the options, stimulating thinking on possible approaches and ultimately supporting the process of building consensus. Further development work continues on the tool and updated versions with a richer set of options for presenting results have been released.

### **III. Core variables**

8. There is support for using a GDP variable, with a blend of Market Exchange Rates (MER) and Purchasing Power Parity (PPP), as the measure of economic weight. However, views differ on whether to use the blend of 60/40 MER/PPP (as used in the 2010 reforms and in other international institutions) or to increase the weight either on the PPP component or on the MER component. There is a general agreement to average GDP over a number of years to smooth fluctuations, with different views on whether to do so over 7 years to reflect longer term trends, over 5 years to match the 5-year cycle of Shareholding Reviews or over 3 years, as used in 2010 and by the IMF, to better capture dynamic growth.
9. Other approaches to measure economic weight have been discussed, notably GNI, as well as the use of *per capita* measures, and the inclusion of a population variable. Bearing in mind the formula guidance and taking account of a number of technical issues, it has been decided to rule out these other approaches and to focus on the GDP blend variable as the measure of economic weight.
10. On IDA contributions, there is recognition of the need both to reflect historic contributions to IDA and also to incentivize new donors and future contributions to IDA replenishments. Further work is needed to refine the approach to doing this, including on the relative weights to be given to historic and recent IDA contributions and the overall weight of IDA in the formula. Initial work on simulations has focused on nominal contributions to IDA replenishments which have been included in the formula simulation tool..
11. Discussions have also considered options to adjust the IDA variable, using a multiplier, for countries whose recent contributions to IDA exceed their calculated burden share. Consensus has not been reached on whether to incorporate such a multiplier in the formula. These discussions are continuing, including on whether or not to include burden-sharing and through technical sessions to explore different options.

### **IV. Further Considerations**

12. Other potential formula variables have been considered, notably borrowers' interest payments and contributions to trust funds. In light of the technical issues involved and the range of views on the case for and against including each of these in the formula, it has been decided, in a spirit of compromise, not to consider them further.

### **V. Next steps and conclusions**

13. On the basis of the discussions so far it appears that significant compromise on currently stated positions would be needed to reach agreement on a formula at the 2016 Annual Meetings and it will be important to continue to approach upcoming discussions with a commitment to reach such compromise in the wider interest of the WBG as an institution. Intensive work will be needed to resolve the outstanding issues. In parallel, work continues

on the related Forward Look exercise to consider the future role of the World Bank Group which is also part of the 2015 Shareholding Review roadmap.

14. The issues surrounding the economic weight variable are well understood, and reaching agreement on the best approach is primarily a matter of readiness to compromise. Further work is required on how to reflect IDA contributions. In the light of this work, further simulations will be prepared to focus discussion on a set of options that offer the best prospect of achieving a consensus.
15. Upcoming engagements of the Committee on Governance and Executive Directors' Administrative Matters (COGAM) will discuss further a number of issues including: options for capturing IDA in the dynamic formula; the appropriate weights to be given to the GDP and IDA variables; options to implement the commitment to protect the smallest poor; and issues relevant to how the dynamic formula will be used in practice as the basis for an allocation of shares in a Selective Capital Increase. In parallel, technical work continues on the formula simulation tool, and new approaches requested by COGAM will be developed and incorporated. It is anticipated that a number of technical sessions to focus on simulations will be needed as part of the process. An indicative work program is attached as an Annex to this report. The aim remains to report to Governors with a proposed dynamic formula at the 2016 Annual Meetings.

## Annex 1

### Committee on Governance and Executive Directors' Administrative Matters (COGAM)

#### Upcoming engagements on the Dynamic Formula

##### April

April 5 – Technical Briefing: follow up to 21 March discussion and updates to the formula simulation tool

##### May

May 9 – COGAM Meeting: Dynamic Formula – Further Issues

*COGAM will take stock of progress on the Dynamic Formula work after the Spring Meetings. Issues for discussion could include: follow up on IDA variable, GDP and IDA weights in the formula, smallest poor protection, share allocation methodology, compression factor.*

##### June

(Date to be determined) – COGAM Meeting: Dynamic Formula – Outstanding Issues

##### July

(Date to be determined) – COGAM Meeting: Dynamic Formula – Wrap up discussion on the formula; Outline of Draft Report to Governors

##### September

(Date to be determined) – COGAM Meeting: Dynamic Formula – Draft Report to Governors

*Other engagements, including technical sessions, may be scheduled as needed to move towards a conclusion.*