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Selecting the World Bank President

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Summary

On March 23, 2012, President Obama nominated Dartmouth College President Jim Yong Kim as the U.S. nominee to succeed Robert Zoellick as World Bank president. Since its founding after World War II, the presidency of the World Bank has been held by a citizen of the United States, the Bank's largest shareholder. The current Bank President, Robert Zoellick, nominated by President George W. Bush in May 2007, will step down at the conclusion of his five-year term in June 2012. Dr. Kim is competing against two other candidates for the position: Jose Antonio Ocampo, a Colombian national and professor at Columbia University; and Ngozi Okonjo-Iweala, a Nigerian national and finance minister of Nigeria.

According to an informal agreement among their member countries, the U.S. nominee is chosen as the World Bank President and a European candidate (typically French or German) is appointed as Managing Director of the International Monetary Fund (IMF). This convention has come under increasing strain over the past two decades. As the economies of developing countries become more integrated into the global economy, the distribution of voting power is being challenged. A second line of criticism is directed directly at the method employed to select World Bank (and IMF) leadership. Any process, critics argue, that elects the World Bank president based on nationality and not merit undermines the legitimacy and effectiveness of the institution. Proposals for a more open, transparent, and merit-based leadership selection process have been made consistently in the past, and at times have been incorporated in communiqués of various leaders summits, but have yet to change the outcome at either of the institutions.

The formal requirements for the selection of the World Bank President is that the Executive Directors appoint, by at least a 50% majority, an individual who is neither a member of the Board of Governors or Board of Executive Directors. There are no requirements on how individuals are selected, on what criteria, or by what process they are vetted. Moreover, although the Executive Directors may select its Managing Director by a simple majority vote, they historically aim to reach agreement by consensus. With these factors combined, the convention guaranteeing European leadership at the IMF and American leadership at the World Bank has remained in place.

The three candidates are to have individual interviews with the World Bank's Executive Board of Directors. It is expected that a decision on the World Bank President will be reached prior to the 2012 spring IMF/World Bank meetings.

Contents

Figures

Contacts

Introduction

On March 23, 2012, President Obama nominated Dartmouth College President Jim Yong Kim as the U.S. nominee to succeed Robert Zoellick as World Bank president. Since its founding after World War II, the presidency of the World Bank has been held by a citizen of the United States, the Bank's largest shareholder. The current Bank President, Robert Zoellick, nominated by President George W. Bush in May 2007, will step down at the conclusion of his five-year term in June 2012.

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This report provides information on the 2012 World Bank selection process and discusses efforts to reform the selection process.

Background

What is the World Bank?

The World Bank is the largest and oldest (created in 1946) of the multilateral development banks (MDBs). In addition to the World Bank, the United States is a member of four regional development banks: the African Development Bank (AfDB); the Asian Development Bank (AsDB); the European Bank for Reconstruction and Development (EBRD); and the Inter-American Development Bank (IDB).

At their most basic, the MDBs are international institutions that provide financing funded from private capital markets to developing countries in order to promote economic and social development. Project loans include large infrastructure projects, such as highways, power plants, port facilities, and dams, as well as social projects, such as health and education initiatives. Policy-based loans provide governments with finance in exchange for implementing particular government policies, such as the privatization of state-owned industries or the reform of agriculture or electricity sectors. In exchange for MDB loans, the borrowing government is required to implement economic reforms, which may include sectoral adjustment and institution-building programs, and commitments to increase investments in education, health, and other social areas.

World Bank member countries participate in the governance of the World Bank, at different layers, through the Board of Governors, the Board of Executive Directors, the World Bank President, and the Development Committee.

Governance Structure of the World Bank

The Board of Governors is the highest policy making authority of the Bank. All 187 countries are represented on the Board of Governors, usually at the Finance Minister or Central Bank governor level. Bank governors usually meet annually at the fall annual IMF/World Bank meetings.

The 25-member Board of Executive Directors is responsible for the conduct of the general operations of the Bank. The Board considers and decides on loan and credit proposals and policy issues that guide the general operations of the Bank and its overall direction. The Board functions in continuous session at the Bank and meets as often as required by Bank business; standing Board meetings are held twice weekly, with Board Committee meetings several times a month. The majority of Bank decisions require a 50% majority vote. Some special matters (changes in the Articles of Agreement or approval of funding increases, for example) require an 85% affirmative vote. Since the U.S. vote in the IBRD exceeds 15%, no funding increases, amendments, or other major actions can go into effect without U.S. consent.

The World Bank's President is Chairman of the Board and elected by Board of Directors. The President is the chief of the operating staff of the Bank and conducts, under direction of the Executive Directors, the ordinary business of the Bank.

The Development Committee is a forum of the World Bank and the International Monetary Fund with 25 members, usually Ministers of Finance or Development, and who represent the full membership of the Bank and Fund. Its mandate is to advise the IMF and World Bank Boards of Governors on major economic development issues.

The United States is the largest contributor to the IBRD, having subscribed $26.49 billion of the $157.3 billion subscribed capital (16.84% of total committed shares). As the largest contributor, the United States holds a single seat on the World Bank's Board of Executive Directors and carries 16.38% of the total votes in IBRD decision-making, which provides veto power on decisions requiring an 85% majority vote.

Leadership Selection at the World Bank

Selecting the leadership at the two major international financial institutions (IFIs)—the IMF and the World Bank—is guided by a 60-year old tradition that the World Bank president is an American and that the IMF Managing Director is a European. The informal agreement reflects the political and economic balance of power at the end of World War II. At the time, the United States believed that the World Bank should be headed by an American since the United States was the only capital surplus nation, and World Bank lending would be dependent on American financial markets. The U.S. Secretary of the Treasury at the time, Fred Vinson, believed that if an American representative headed the World Bank, the IMF must be headed by a non-American.[1] Moreover, he noted, "it would be impracticable to appoint U.S. citizens to head both the Bank and the Fund."[2]

[1] Miles Kahler, *Leadership Selection in the Major Multilateral* (Washington, DC: Institute for International Economics, 2001).

[2] Ibid.

World Bank Presidents (1946-Present)

- Robert Zoellick, 2007-present. Former U.S. trade representative and deputy secretary of state under President George W. Bush. Will step down in June.
- Paul Wolfowitz, 2005-2007. Former deputy defense secretary under President George W. Bush.
- James Wolfensohn, 1995-2005. An investment banker and lawyer, born in Australia who later became an American citizen.
- Lewis Preston, 1991-1995. A commercial banker who was chief executive of J.P. Morgan.
- Barber Conable, 1986-1991. Former GOP member of Congress from New York for 20 years.
- Alden Winship Clausen, 1981-1986. A commercial banker who was chief executive of BankAmerica.
- Robert S. McNamara, 1968-1981. Former defense secretary under Presidents John F. Kennedy and Lyndon Johnson. President of Ford Motor Company.
- George David Wood, 1963-1968. An investment banker and chairman of First Boston Corp.
- Eugene Robert Black, 1949-1962. Former top executive at Chase National Bank.
- John Jay McCloy, 1947-1949. A lawyer and former assistant secretary of war during World War II.
- Eugene Meyer, 1946. An investor and owner of The Washington Post.

Source: Associated Press.

Despite the growth of world capital markets, and the fact that the World Bank is no longer reliant on U.S. capital markets, the convention on the IMF and World Bank selection has remained intact. Moreover, the U.S.-E.U. agreement is not unique. According to a comprehensive 2009 study:

> Informal agreements allocating positions of authority and decision making pervade international organization. Whether in secretariats or political, judicial, and administrative bodies, tacit understandings that assign representation to certain states or groups of states are the norm, not the exception....[3]

The Articles of Agreement of the African Development Bank (AfDB) and the Asian Development Bank (AsDB) each specify that only citizens of regional countries may serve as presidents of those banks. By tradition, the Japanese Finance Ministry nominates a Japanese citizen to be president of the AsDB while a competitive process is used to select the AfDB president. The Articles of the Inter-American Development Bank (IDB) and the European Bank for Reconstruction and Development (EBRD) specify only that their president must come from a member country. By tradition, the IDB president is selected by a competitive process from among citizens of the Latin American countries. The EBRD president is also elected by a presumably competitive process, though only French and German citizens have served to date in that capacity and there is normally only one nominee.

Second-tier offices in these institutions have also traditionally been reserved for U.S. citizens. First Deputy Managing Director at the IMF and Executive Vice President at the IDB are traditionally U.S. citizens. These individuals are appointed by the chief executive of the institution, but in the case of the IMF and IDB an individual is typically designated by the U.S.

[3] Jacob Katz Cogan, "Representation and Power in International Organization: The Operational Constitution and its Critics," *The American Journal of International Law*, 2009, vol. 103.

Government. At the Asian Development Bank and EBRD, one of the vice presidents for an operational region has typically been a U.S. citizen.

Rapidly emerging economies have repeatedly stated that unless their nationals are able to effectively compete for leadership positions at the major international financial institutions, they would pursue efforts to create an alternative institutions. The creation of the development bank was discussed at the March 2012 summit of Brazil, Russia, India, and China. Some analysts argue that calls for a non-European director from the emerging economies mask divides that make it difficult for emerging economies to unite behind one credible candidate. Emerging economies could not unite behind a single alternative candidate to the European nominee for IMF Managing Director in 2011, and a similar situation may occur at the World Bank, with Latin American and African Executive Directors splitting their support among the two candidates.

Formal Process for Selecting the World Bank President

The formal guidelines for choosing the World Bank president are laid out in the Bank's Articles of Agreements and Bylaws.[4] Article V, Section 5, states that "[t]he Executive Board shall select a President who shall not be a Governor or an Executive Director." This decision may be reached by a simply majority of the Executive Board. Section 13(c) of the Bank's bylaws stipulate the terms of service. World Bank presidents are elected for renewable five-year terms. Neither the Articles nor the bylaws articulate any specific qualifications for the position of President of the World Bank.

The Bank's Articles of Agreement, however, are silent on any requirements on how individuals are selected, on what criteria, or by what process they are vetted. There is no formal search process for candidates. Nominations can only be made by the 25 World Bank Executive Directors and there is no concerted search process of the Executive Board to identify and vet possible candidates.

Voting at the World Bank

Unlike the United Nations General Assembly, which relies on a one-person, one-vote governance system, the World Bank uses a weighted voted system. Voting is loosely based on contributions to the Bank. The five largest shareholders (United States, Japan, Germany, France, and the United Kingdom) have their own seat on the Executive Board. In addition to the five largest shareholders, China, Russia, and Saudi Arabia have enough votes to elect their own Executive Directors. All other countries have gravitated into mixed-state groupings or constituencies. These constituencies range in size from three countries (South Africa, Angola, and Nigeria) to 21. The mixed-state constituencies are flexible in their membership. Countries have periodically switched constituencies, often to a new group that will allow them to have a bigger vote or leadership role.

Unlike the eight countries that have their own ED, the influence of countries in mixed-state constituencies is not equivalent to their quota-determined voting weight. Since they vote in constituencies, very small countries can easily be sidestepped by the larger countries in the constituency. For many countries at the World Bank they "can at best express a divergent opinion

[4] The World Bank Group's Articles of Agreement and Bylaws are available at the Bank's website: http://www.worldbank.org.

orally but cannot bring it to bear in the form of a vote."[5] Executive Directors must cast their votes as single unit even though some of the countries they represent may disagree with their position. There is no provision for splitting a constituency's vote.

At the World Bank Executive Board, the countries of the European Union have more than 30% of the votes in the World Bank. In general, they tend to agree with each other on most policy issues. Taken together, the United States, European countries, and Japan (9.4% voting share) control at least 50% of the votes on the Executive Board.

The selection process is also constrained by informal guidelines among the Executive Board. Rather than formal voting, the decision on selecting an Managing Director has been made historically by consensus. If there is more than one candidate under consideration, potential candidates are weeded out by the Executive Board through informal straw polls.

There is no formal congressional involvement in the selection of Bank management. U.S. participation in the World Bank is authorized by the Bretton Woods Agreement Act of 1945.[6] The act delegates to the President ultimate authority under U.S. law to direct U.S. policy and instruct the U.S. representatives at the Bank. The President, in turn, has generally delegated authority to the Secretary of the Treasury. With the advice and consent of the Senate, the President names individuals to represent the United States on the Executive Board of the World Bank. The Executive Board has authority over operations and policy and must approve any loan or policy decision. The U.S. Executive Director is supported primarily by Treasury Department staff. Unique among the founding members, the Bretton Woods Agreement Act requires specific congressional authorization for certain decisions, such as changing the U.S. share at the Bank or to amend the Articles of Agreement. However, neither the approval of individual loans nor the selection of the Managing Director requires congressional approval.

Reform Efforts

The European-U.S. arrangement to split the leadership at the IMF and World Bank has generated controversy, which may undermine the effectiveness of the eventual nominee. Critics of the current selection process make two general arguments. First, the gentlemen's agreement on IMF and World Bank leadership is a relic of a global economy that no longer exists. Whereas the United States and Europe dominated the post-war economy, the current international economy is more diverse. Developing and emerging market countries contribute half of global output, up from 25% thirty years ago.[7] At the same time, the share accounted for by the G7 countries has declined from 65% in 2002 to 51% in 2010.[8]

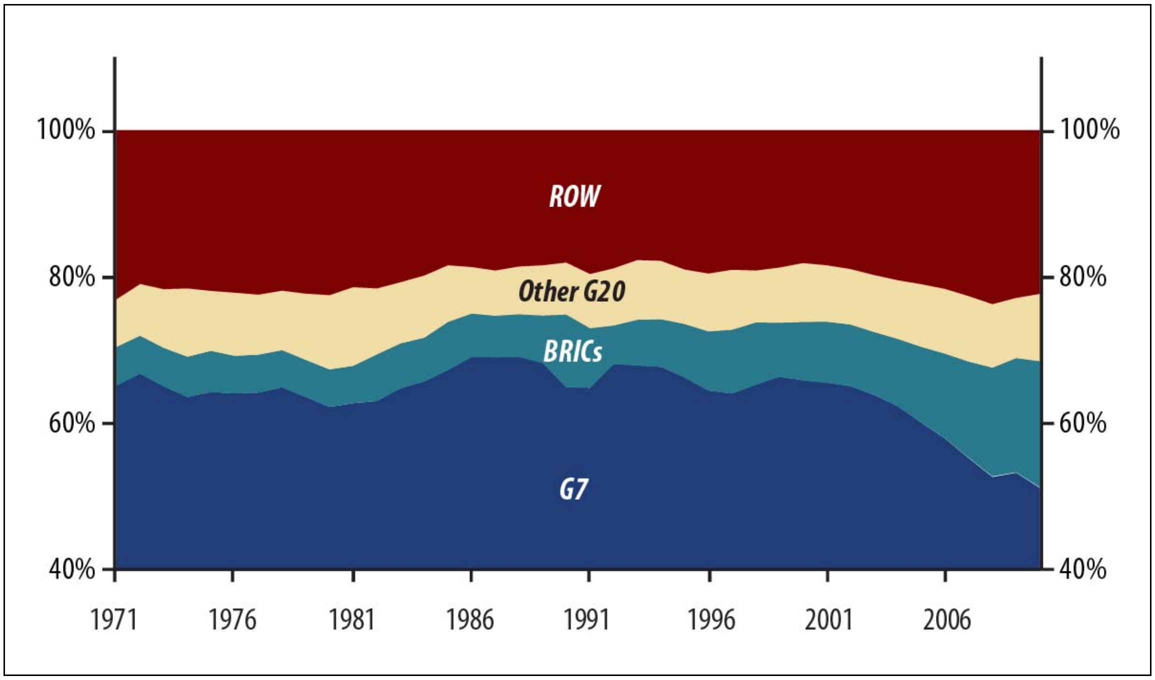
[5] Richard Gerster, Proposals for Voting Reform Within the International Monetary Fund, *Journal of World Trade*, June 1993.

[6] 22 U.S.C. §286 et seq.

[7] International Monetary Fund, Strengthening the International Monetary System: Taking Stock and Looking Ahead, Washington, DC, March 23, 2011.

[8] Ibid.

Figure 1. Share of World GDP, 1971 - 2011



Source: International Monetary Fund, adapted by CRS.

Notes: G7: Canada, France, Germany, Italy, Japan, United Kingdom, and the United States; **BRICs**: Brazil, Russia, India, and China; **Other G20**: Argentina, Australia, Indonesia, Japan, Mexico, Saudi Arabia, South Africa, South Korea, and Turkey; **ROW**: Rest of world. In 2010, South Africa joined the BRIC group.

In such a diverse global economy, any agreement that grants the leadership position based on nationality, critics argue, unnecessarily limits the pool of potential candidates, excluding non-Europeans that may be exceptionally competent in addressing the issues before the Bank. "We welcome the candidatures from developing world for the position of the president of the World Bank. We reiterate that the heads of IMF and World Bank be selected through an open and merit-based process," said leaders from Brazil, Russia, India, China and South Africa in a joint 2012 statement.[9]

Second, critics also argue that the current system, where the Executive Board decides among candidates in secret closed door sessions potentially undermines the legitimacy of the eventual Managing Director. There is also concern that the World Bank "practice what it preaches" since the institution aims to be at the forefront of promoting best practices in global governance. "The convention that an American should run the bank while a European runs the International Monetary Fund, is exactly the sort of unmeritocratic cronyism that both the fund and the bank deplore in developing countries," said the *Economist Magazine* in 2007 during the selection process that nominated Mr. Zoellick.[10] Collins Magalasi, of the African Forum and Network on Debt and Development, argued that "it's a World Bank, not a U.S. Bank. It needs the best candidate to get the job with support of wide Bank membership, not just the U.S."[11]

[9] BRICS Summit: Delhi Declaration. March 29, 2012

[10] The World Bank: Right Second Time, *Economist*, May 31, 2007.

[11] Press release, "Appointment of next World Bank head: Campaigners demand fair selection process," Eurodad, March 2012.

In July 2000, two internal working groups (the World Bank Working Group to Review the Process for Selection of the President and the International Monetary Fund Working Group to Review the Process for Selection of the Managing Director) were created to discuss the selection procedure. A joint draft report of the Working Group was endorsed by the Executive Directors on April 26, 2001, but never formally implemented. The report declared, among other things, that transparency and accountability is critical to the selection process.[12]

More recently, the selection process was discussed during various G-20 summits. Language was included in the 2009 Pittsburgh Summit communiqué, stating that "[a]s part of a comprehensive reform package, we agree that the heads and senior leadership of all international institutions should be appointed through an open, transparent and merit-based process."[13]

Since 2008, the Development Committee of the IMF and the World Bank have called for an "open, merit-based and transparent selection of the World Bank President" and "with nominations open to all board members and transparent board consideration of all candidates." The issue was not addressed, however, in any of the three most recent G-20 meeting communiqués (Toronto, Seoul, and Cannes).[14]

The 2012 Selection Process

On March 23, 2012, President Obama nominated Dartmouth College President Jim Yong Kim as the U.S. nominee to succeed Robert Zoellick as World Bank president. Prior to Dartmouth, he held professorships in medicine and social medicine at Harvard Medical School and served as the director of the Francois-Xavier Bagnoud Center for Health and Human Rights. He is a co-founder of Partners In Health and a pioneer in the treatment of multi-drug-resistant tuberculosis and a former director of the World Health Organization's Department of HIV/AIDS.

Until the current succession, the U.S. candidate has never been formally challenged by other countries. Dr. Kim is currently competing against two other candidates for the position: Jose Antonio Ocampo, a Colombian national and professor at Columbia University; and Ngozi Okonjo-Iweala, a Nigerian national and finance minister of Nigeria.

Prior to his appointment at Columbia University, Dr. Ocampo served in a number of positions in the United Nations and the Government of Colombia, most notably as United Nations Under-Secretary General for Economic and Social Affairs. Dr. Okonjo-Iweala, prior to her July 2011 appointment as Nigerian Minister of Finance, held senior positions in the World Bank, including Managing Director from 2007-2011, and in the Nigerian Government where she had previously served as Minister of Finance (2003-2006) and Foreign Minister (2006).

Instead of implementing the 2001 report's recommendations the Executive Board adopted in 2011 a procedure that specified qualification criteria, established a nomination period, and provided for

[12] International Monetary Fund and the World Bank, "The Bank Working Group to Review the Process for Selection of the President and the Fund Working Group to Review the Process for Selection of the Managing Director—Draft Joint Report," April 25, 2001.

[13] G20, *Leaders' Statement: The Pittsburgh Summit*, September 24-25, 2009.

[14] CRS Report R40977, *The G-20 and International Economic Cooperation: Background and Implications for Congress*, by (name redacted).

an interview process. Critics, point out that the agreed procedures remain vague and largely non-transparent. Most notably, development expertise is not included as a qualification and the decision will be taken not by public vote, but rather by consensus according to prior practice. Declaring the importance of an "open, transparent, and merit-based" process, yet continuing to perpetuate the status-quo, according to three former World Bank chief economists, is hypocritical, and "destroys the trust and spirit of collaboration needed to manage the profound problems facing the world."[15]

2001 Recommendations of IMF and World Bank Leadership Reform

1) Executive Directors should establish clear criteria for identifying, nominating, and selecting qualified candidates for the post;

2) Executive Directors should be informed in a timely manner regarding candidates, including their credentials and knowledge of the institution;

3) There should be a channel for facilitating smooth communication;

4) Transparency and accountability are critical; and

5) Any decision concerning the selection process should take into account any impact on the selection process at other international financial institutions.

2011 World Bank President Selection Criteria

1) A proven track record of leadership;

2) Experience managing large organizations with international exposure, and a familiarity with the public sector;

3) Ability to articulate a clear vision of the Bank's development mission

4) A firm commitment to and appreciation for multilateral cooperation; and

5) Effective and diplomatic communication skills, impartiality, and objectivity.

Sources: International Monetary Fund and the World Bank, The Bank Working Group to Review the Process for Selection of the President and the Fund Working Group to Review the Process for Selection of the Managing Director—Draft Joint Report, April 25, 2001; International Monetary Fund and the World Bank, Strengthening Governance and Accountability: Shareholder Stewardship and Oversight, April 4, 2011.

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[15] Francois Bourguignon, Nicholas Stern, and Joseph Stiglitz, "End the Monopoly: let's make it a real World Bank at last," *Financial Times*, March 21, 2012.