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IN FOCUS

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The World Bank

The World Bank, the oldest and largest multilateral development bank, provides financial assistance to developing countries to promote economic development. Established in 1945, the Bank initially focused on providing financing for large infrastructure projects. During the past 75 years, its role has broadened to include poverty reduction efforts through social projects (such as education and health) and policy-based loans. The United States is a founding member of the World Bank and the largest financial contributor. Congress shapes U.S. policy at the World Bank through oversight, legislation, and authorization and appropriation of U.S. financial commitments to the World Bank.

Structure and Governance

The World Bank has two major lending "windows" or "facilities." The **International Bank for Reconstruction and Development** (IBRD), created in 1945, provides loans, guarantees, risk management products, and advisory services to middle-income countries and some creditworthy low-income countries. The IBRD currently has 189 member countries. In 1960, at the suggestion of the United States, the **International Development Association** (IDA) was created to make concessional loans (with low interest rates and long repayment periods) to the poorest countries. IDA also now provides grants to these countries. IDA currently has 173 member countries.

The IBRD and IDA operate according to procedures established by their Articles of Agreement, documents that outline the conditions of membership and general principles of organization, management, and operations. The World Bank's highest decision-making authority is the Board of Governors, which meets annually. Each member country is represented on the Board of Governors, usually by the finance minister or central bank governor. The U.S. Governor is currently Treasury Secretary Steven Mnuchin.

The Board of Governors has delegated day-to-day authority over operational policy, lending, and other matters to the Board of Directors. There are 25 Executive Directors. The five largest Bank shareholders (China, France, Germany, the United Kingdom, and the United States) appoint their own Executive Director. Other member countries are represented by elected Executive Directors. The U.S. Executive Director is currently DJ Nordquist, previously at the Council of Economic Advisors among other positions.

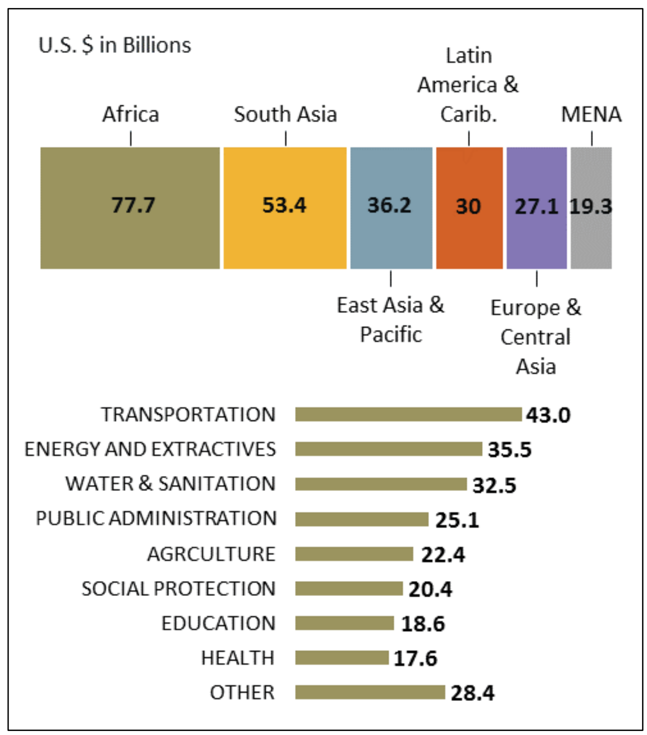
Board decisions are reached through voting. Each member country's voting share is weighted on the basis of its financial contributions to the World Bank. U.S. voting power at the IBRD is 15.98% and at IDA is 10.20%. The United States has unique veto power over amendments to the IBRD Articles of Agreement, but the U.S. cannot unilaterally veto day-to-day decisions, such as the approval of individual projects.

The President of the World Bank is selected by the Board of Directors for a five-year, renewable term. Traditionally, the Bank President has always been nominated by the United States. David Malpass, previously the Under Secretary for International Affairs at the Treasury Department, was selected as the 13th World Bank President in April 2019. Headquartered in Washington, DC, the World Bank has more than 120 offices and 10,000 employees worldwide.

Projects and Financing

The IBRD and IDA fund development projects around the world and in a variety of sectors (**Figure 1**). In terms of the World Bank's active portfolio by region, Africa, South Asia, and East Asia and the Pacific are the top recipients. By sector, the World Bank has projects focused on transportation, energy, and water and sanitation, among others. The IBRD and IDA disbursed \$20.2 billion and \$17.5 billion, respectively, to developing countries in FY2019.

Figure 1. World Bank Active Portfolio, FY2019



Source: World Bank Annual Report 2019.

Notes: Middle East and North Africa (MENA).

The World Bank is able to extend financial assistance to developing countries due to the financial commitments of its more prosperous member countries. The IBRD borrows money from international capital markets and then relends the money to developing countries. The IBRD is able to borrow from international capital markets because it is backed by the guarantees of member governments. The IBRD's total capital is $280 billion. Most of the capital ($263 billion) are guarantees from donor countries ("callable" capital) and a small portion ($17 billion, about 6%) has been paid to the IBRD by donor countries ("paid-in" capital). The United States has the largest financial commitment to the IBRD, accounting for 16.57% of total IBRD resources. U.S. paid-in capital is $2.9 billion and U.S. callable capital is $43.5 billion. To date, the IBRD has never drawn on its callable capital. The IBRD earns income on its equity investments and the interest it charges on loans, which it uses to pay for World Bank operating expenses. The IBRD also annually transfers a portion of its net income to IDA.

IIDA is able to provide low-cost loans and grants based on direct contributions by donor countries, in addition to the annual transfer from IBRD. IDA also started issuing its own bonds in 2018 as a new way to raise resources. As IDA extends concessional loans and grants to low-income countries, the window's resources become depleted. Donor countries meet every three years, to replenish resources. Across the 18 replenishments of resources since IDA's creation, donor countries have contributed $258 billion to IDA. The United States has contributed $53.2 billion, about 21% of the total.

U.S. Policy

The United States has traditionally played a leadership role at the World Bank. Within the U.S. government, the Treasury Department is the lead agency in the Executive Branch managing U.S. participation in the World Bank.

Congress also shapes U.S. policy at the World Bank. Congress authorizes and appropriates U.S. financial commitments to the World Bank and, at times, has withheld funding unless certain reforms are completed. Congress has also passed legislation directing U.S. representatives at the World Bank and other international financial institutions (IFIs) to advocate and vote for specific policies, as well as legislation requiring reports from the Treasury Department on World Bank and other IFI issues. In addition, presidential appointments for the U.S. representatives at the World Bank (the Governor, the Executive Director, and their alternates) require Senate confirmation.

For FY2020, the Administration requested authorization and appropriations to participate in a $60 billion IBRD capital increase. This would require authorization for $1.4 billion in callable capital, and appropriations of $206.5 million towards the first of six installments for paid-in capital. The Administration has also requested $1.1 billion for IDA, as the third and last payment of the 18th replenishment of IDA. H.R. 2740, passed by the House in June 2019, and S. 2583, introduced in the Senate in September 2019, match the Administration's request.

Current Debates

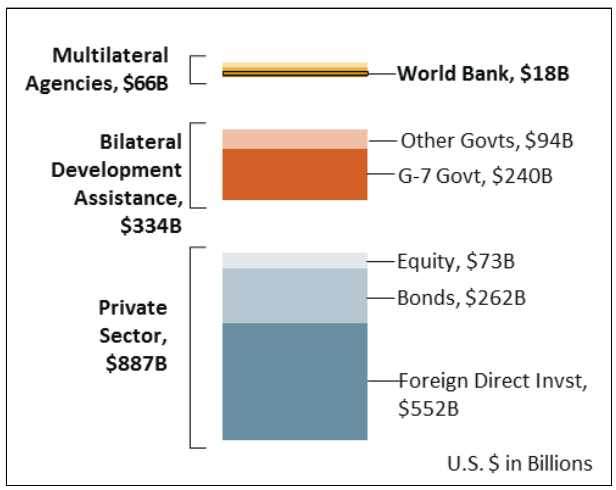
The IBRD was established to address shortages of capital for post-WWII Europe and developing countries. In subsequent decades, international capital markets developed and donor countries created new multilateral aid organizations. Today, the World Bank is a relatively small source of capital to developing countries (**Figure 2**), raising questions about its continuing relevancy.

Proponents argue the World Bank finances critical development projects that would otherwise go unfunded by private investors, is uniquely positioned to address cross-border development challenges, can effectively allocate aid globally based on need, and produces important research and data on development. The World Bank also pools contributions from many donors to facilitate cost-sharing of development projects.

Skeptics are concerned that the World Bank crowds out private financing, is overly focused on approving new projects rather than delivering results, emphasizes short-term outputs like reports and frameworks at the cost of long-term objectives, places administrative demands on developing countries, and lacks a clear division of labor with other multilateral aid organizations. Broader U.S. concerns focus on the limited control the United States has over multilateral aid provided through the World Bank and other institutions, compared to bilateral aid programs, among other issues.

In addition, questions have been raised about whether reforms could improve World Bank transparency and effectiveness; the appropriateness of IBRD lending to China, when China has resources to fund its own overseas investment projects; the optimal size of World Bank resources; and whether the World Bank should be more focused on development research and technical assistance relative to project lending.

Figure 2. Select Capital Flows to Developing Countries, 2017



Source: OECD International Development Statistics, World Bank World Development Indicators.

Notes: Data for net disbursements of official flows and net inflows of private capital. Bilateral development assistance is total bilateral aid from OECD Development Assistance Committee (DAC) governments.

For more information, see CRS Report R41170, *Multilateral Development Banks: Overview and Issues for Congress*, by Rebecca M. Nelson and CRS In Focus IF10895, *2018 World Bank Capital Increase Proposal*, by Martin A. Weiss.

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