Selecting the World Bank President

Updated February 8, 2019
Summary

On January 7, 2018, World Bank President Jim Yong Kim announced that he would resign by February 1, three years before the expiration of his second five-year term in 2022. Following his resignation, Dr. Kim is to join Global Infrastructure Partners (GIP), a private equity fund that invests in projects in advanced and developing countries. Prior to his nomination to the World Bank by President Barack Obama in 2012, Dr. Kim served as the President of Dartmouth College.

The nomination period for the next president ends on March 14, after which the Executive Board is to select three candidates for interviews. To date, the only candidate is David Malpass, the Treasury Department’s Undersecretary for International Affairs, nominated by President Trump on February 6, 2019. Following the interviews, the Executive Board is to select the next president, something which it aims to do before the spring meetings in April 2019.

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. According to an informal agreement among World Bank member countries, a U.S. candidate is chosen as the president of the World Bank and a European candidate (typically French or German) is appointed as the Managing Director of the International Monetary Fund (IMF).

The formal requirement 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 nor Board of Executive Directors. There are no requirements on how individuals are selected, on what criteria, or by what process they are vetted. Although the Executive Directors may select the IMF Managing Director by a simple majority vote, they historically aim to reach agreement by consensus. With these factors combined, the custom guaranteeing European leadership at the IMF and American leadership at the World Bank has remained in place.

This custom has been subject to increasing criticism during the past two decades. The first line of criticism is directed at the current distribution of voting power, which critics contend does not account for the increasing integration of developing countries into the global economy. A second line of criticism is directed at the method of selecting World Bank and IMF leadership, which critics argue, elevates nationality above merit and undermines the legitimacy and effectiveness of the institutions. Calls for a more open, transparent, and merit-based leadership selection process have been made consistently in the past, and at times have been incorporated into communiqués of various summits, but have yet to change the leadership selection process at either institution.
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Introduction

World Bank President Kim Yong Kim recently announced that he was stepping down in February 2019 to join Global Infrastructure Partners, a private equity fund that invests in projects in advanced and developing countries. Kim’s unexpected resignation, combined with his joining of a private firm that could directly compete with the World Bank for investments, raises questions for policymakers as they nominate and select a new president for the World Bank, a central component of the U.S.-led international economic order for the past eight decades.

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 custom has been subject to increasing criticism during the past two decades. The first line of criticism is directed at the current distribution of voting power, which critics contend does not account for the increasing integration of developing countries into the global economy. A second line of criticism is directed at the method of selecting World Bank and IMF leadership, which critics argue, elevates nationality above merit and undermines the legitimacy and effectiveness of the institutions.

This report provides information on the 2019 World Bank selection process and discusses efforts to reform the selection process.

Background

What is the World Bank?

The World Bank is a multilateral development bank (MDB) that offers loans and grants to low- and middle-income countries to promote poverty alleviation and economic development. The World Bank has near-universal membership, with 189 member nations. U.S. membership in the World Bank is authorized by a federal statute known as the Bretton Woods Agreements Act (22 U.S.C. 286 et seq.). Only Cuba and North Korea, and a few micro-states such as the Vatican, Monaco, and Andorra, are nonmembers.

Two of the Bank’s five facilities, the International Bank for Reconstruction and Development (IBRD) and the International Development Association (IDA), lend directly to governments to finance development projects and policy programs in member countries. The IBRD provides middle-income developing countries with loans at near-market rates using funds raised by the World Bank on international capital markets. IDA was established in 1960 due to concerns that low-income countries could not afford to borrow at the near-market rate terms offered by the IBRD. IDA provides grants and concessional loans funded by contributions from donors and transfers from the IBRD to low-income countries. A country’s eligibility for IBRD or IDA financial assistance depends on its relative poverty, defined as gross national income (GNI).

Footnotes:
1 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).
2019, countries with a per capita GNI below $1,145 are eligible for IDA funding. IBRD commitments totaled $23.6 billion in 2018. Commitments from IDA to low-income countries were $24 billion in 2018 (Table 1). Three other World Bank-affiliated organizations are dedicated to promoting private sector finance and investment in low-income countries. The International Finance Corporation (IFC) promotes private sector development in developing countries by making loans and investments in small- and medium-sized companies in those countries. The Multilateral Investment Guarantee Agency (MIGA) provides private investors with insurance coverage against noncommercial risk (expropriation, war and civil disturbance, and/or breach of contract) in developing countries. The International Center for the Settlement of Investment Disputes (ICSID) provides dispute resolution for investment disputes between governments and foreign investors.

Table 1. World Bank Group Commitments
Fiscal Years 2018 and 2017 (in U.S. billions)

<table>
<thead>
<tr>
<th>World Bank Group</th>
<th>FY 2018</th>
<th>FY 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>International Bank for Reconstruction and Development (IBRD)</td>
<td>22.6</td>
<td>22.6</td>
</tr>
<tr>
<td>International Development Association (IDA)</td>
<td>19.5</td>
<td>19.5</td>
</tr>
<tr>
<td>International Finance Corporation (IFC)</td>
<td>11.9</td>
<td>11.9</td>
</tr>
<tr>
<td>Multilateral Investment Guarantee Association (MIGA)</td>
<td>4.8</td>
<td>4.8</td>
</tr>
<tr>
<td>Total</td>
<td>58.8</td>
<td>58.8</td>
</tr>
</tbody>
</table>

Source: World Bank

Note: ICSID does not make investments and is not included in the table.

The United States is the largest contributor to the World Bank, having the largest share of the IBRD’s subscribed capital, $46.4 billion (16.88%) of a total of $275 billion. As the largest contributor, the United States holds a single seat on the 25-member Board of Executive Directors and carries 16.32% of the total votes in Bank decision-making, which provides veto power on decisions requiring an 85% majority vote. The largest shareholders after the United States are Japan (6.89% of voting power), China (4.45%), Germany (4.03%), France (3.78%), and the United Kingdom (3.78%). The large voting power of the United States ensures the U.S. ability to veto major policy decisions at the Bank.

A citizen of the United States has always held the presidency of the World Bank. 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 Board.

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3 Further background information is available at http://ida.worldbank.org/about/borrowing-countries.

4 The World Bank’s fiscal year 2018 covers the period July 1, 2017 to June 30, 2018.

5 World Bank 2018 Annual Report and Financial Statements. Of the U.S. contribution, a partial amount, $2.9 billion, is paid in. This amount has been fully authorized and appropriated by Congress in several appropriations measures over the years. The balance of the U.S. subscription, $43.5 billion in callable capital, has been authorized by Congress but not appropriated.

Directors, the ordinary business of the Bank. The Bank’s twelfth president, Jim Yong Kim has served since 2012. On September 27, 2016, Dr. Kim was re-elected as the World Bank president, for a second five-year term beginning July 1, 2017.\(^7\)

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**Governance Structure of the World Bank**

The Board of Governors is the highest policy making authority of the Bank. All 189 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 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 Trump Administration has continued to support U.S. participation in the IFIs and has funded recent U.S. MDB commitments.\(^8\) The Trump Administration is supporting a $60.1 billion capital increase for the World Bank’s main lending facility, the IBRD, which would raise its capital from $268.9 billion to $329 billion.\(^9\) World Bank members also endorsed a $5.5 billion capital increase for the IFC, which would more than triple the IFC’s capital base from $2.57 billion to $8.2 billion. The Trump Administration supports the capital increase, which is to be accompanied by reforms designed, in part, to address a longstanding concern for many U.S. policymakers: high levels of World Bank lending to upper-middle income countries, especially China. In a statement at the 2017 IMF and World Bank spring meetings, U.S. Treasury Secretary Steven Mnuchin stated that, “the relationship between the World Bank and more creditworthy countries [such as China] should mature over time, with the absolute level of borrowing declining as countries become better able to finance their own development objectives.”\(^10\)

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**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 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

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\(^10\) Department of the Treasury, “Development Committee Statement of Secretary Mnuchin - April 2018,” Washington, DC, April 21, 2018.
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. Moreover, he noted, “it would be impracticable to appoint U.S. citizens to head both the Bank and the Fund.”

World Bank Presidents (1946-Present)

- Jim Yong Kim, 2012-Present. Physician and anthropologist, co-founder of a global health nonprofit organization and former president of Dartmouth College.


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. The U.S.-EU agreement is not unique. A 2009 study finds that:

> Informal agreements allocating positions of authority and decision making pervade international organizations. 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...

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. 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.

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

However, despite these restrictions, there have been successful efforts to open up the selection process across the MDBs. In 2015, the AfDB members elected Akinwumi Adesina of Nigeria, after a transparent election involving seven other candidates. Adesina garnered 58% of the total vote of AfDB shareholders. The 2012 World Bank election was the first to include several candidates and Kim’s nomination was, unlike past nominations, not unanimous. The announcement of Kim’s selection noted that a new selection process (introduced in 2011) yielded multiple nominees (former Nigerian finance minister Ngozi Okonjo-Iweala and former Colombian finance minister and United Nations Undersecretary-General for Economic and Social Affairs, Jose Antonio Ocampo) and that the nominees received support from different member countries.

**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. 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 simple 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.

In 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 are critical to the selection process.

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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 an interview process. Critics point out that the agreed procedures remain vague and largely nontransparent. 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.”

### 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.

### 2012 and 2018 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


The decision to select a new World Bank president is to be made by a majority vote of the World Bank’s Executive Board. 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, 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 orally but cannot bring it to bear in the form of a vote.” 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.

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. 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 position of U.S. Executive Director is currently vacant. The Alternate Executive Director is Erik Bethel. 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 and the 2019 Selection Process

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 seen as 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. Over the past several decades, the balance of global economic power has been shifting from the United States and Europe to China and a number of other fast-developing countries (Figure 1). These economies account for rising shares of global GDP, manufacturing, and trade, also are driven by a significant expansion of trade among the developing countries (South-South trade). These shifts are driven by growing economic integration and interdependence among economies, particularly through new global production and supply chains that incorporate inputs from many different countries.

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21 22 U.S.C. §286 et seq.
22 For more information on Mr. Bethel, see: http://www.worldbank.org/en/about/people/e/erik-bethel.
25 There are many recent books and reports documenting the shifts in global economic power. A notable example is: The World Bank, *Global Development Horizons 2011, Multipolarity: The New Global Economy*, Washington, DC,
In recent years, China has also invested in, created, and led a range of institutions and initiatives, including the Asian Infrastructure Investment Bank (AIIB) and other funding mechanisms, such as the Silk Road Fund and the New Development Bank (also known as the BRICS Bank), a collective arrangement with Brazil, Russia, India, and South Africa.\(^\text{26}\) At the same time, China is pursuing its own bilateral and regional trade agreements, such as the proposed Regional Comprehensive Economic Partnership (RCEP) with 15 other countries in the Asia Pacific. China has also positioned itself to act as a lender of last resort through monetary arrangements such as the BRICs Contingent Reserve Arrangement (CRA) and the Chiang Mai Initiative Multilateralization (CMIM).\(^\text{27}\)

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 that may be exceptionally competent in addressing the issues before the Bank. “Since the creation of the International Monetary Fund and World Bank at the end of the second world war, an American has led the Bank and a European the IMF,” noted Mark Sobel, U.S. chairman of The Official

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\(^{26}\) CRS In Focus IF10154, Asian Infrastructure Investment Bank, by Martin A. Weiss; CRS Report R44754, Asian Infrastructure Investment Bank (AIIB), by Martin A. Weiss.

Monetary and Financial Institutions Forum (OMFIF), an independent think tank and former U.S. representative at the IMF. According to Birdsall, senior fellow and founding president of the Center for Global Development, “the logic of an American president to ensure sustained U.S. support for the World Bank is no longer as clear as it has been.” According to Birdsall, and others, the Trump Administration’s “America First” rhetoric may make it harder for the United States to coalesce support for the U.S. candidate. Others argue that these concerns are overblown and that any serious effort to block the U.S. nominee would backfire. David Dollar, a former U.S. Treasury and senior World Bank official, says that, “it’s a very complicated game. My instinct is that there is a very strong likelihood that the U.S. nominee will be approved. The world has an interest in the United States staying engaged with the World Bank.”

Following Kim’s announcement of his resignation, the Bank’s Executive Board met on January 9, 2019, and issued a formal statement on the selection process. The nomination period for the next president ends on March 14, after which the Executive Board is to decide on a shortlist of three candidates. Following interviews, the Executive Board aims to select the next president before the spring meetings in April 2019.

On February 6, President Trump nominated David Malpass, Treasury’s Under Secretary for International Affairs to be the next World Bank President. Reportedly, Ivanka Trump, President Trump’s oldest daughter and senior advisor, played a role in selecting the U.S. nominee. In 2017, Ms. Trump helped start a World Bank-administered fund, the Women Entrepreneurs Finance Initiative, which aims to generate $1.6 billion in capital for female entrepreneurs. The White House, according to reports, also considered Indra Nooyi, the former chief executive officer of PepsiCo; Ray Washburne, President and Chief Executive of the Overseas Private Investment Corporation; Mark Green, U.S. Agency for International Development Administrator; and Robert Kimmitt, Deputy Treasury Secretary under George W. Bush.


29 Ibid.


Author Information

Martin A. Weiss
Specialist in International Trade and Finance

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