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The World Bank: Changing Leadership and Issues for the United States and Congress

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Summary

The decision of World Bank President James Wolfensohn to resign in May 2005 has triggered the search for a successor. Although any member of the World Bank Executive Board can propose a candidate for election by a majority vote of members, tradition dictates that the United States selects the President at the World Bank and Europe chooses the International Fund Managing Director. Although there is repeated criticism of this arrangement, and actual proposals to change the system have been considered, it is unlikely that this tradition will be abandoned during the current selection process. The focus of the next World Bank President likely will be on many development issues including global humanitarian and reconstruction assistance and debt relief for the poorest countries, among others. Congress has a significant role in shaping U.S. policy at the World Bank through funding arrangements and oversight responsibility. This report will be updated as events warrant.

On March 16, 2005, President Bush announced the nomination of Paul D. Wolfowitz, U.S. Deputy Secretary of Defense as the U.S. nominee to succeed James Wolfensohn as World Bank President. In addition to his service at the Department of Defense, Mr. Wolfowitz served three years as ambassador to Indonesia (1986 to 1989) and four years as Assistant Secretary of State for East Asian and Pacific Affairs (1982 to 1986).

Tradition dictates that the U.S. President nominates the World Bank President, while the International Monetary Fund head is a European. Nonetheless, each nomination must be approved by a 50% majority of the respective institution's executive boards. According to many press reports, Mr. Wolfowitz's nomination was coolly received in European as well as Asian and Latin American capitals. According the *Washington Post*, although the United States government has discussed the process and procedures for its deciding the U.S. nominee, the U.S. government did not discuss or consult on specific candidates.[1] Whether possible resistence will lead to formal opposition to Mr. Wolfowitz's nomination is unknown. Potentially more important may be his ability to garner the broad-based support necessary to lead and provide strategic direction to the World Bank Board and staff. There is precedence for blocking a nominee. In 2000, the United States blocked the German nomination of Caio-Koch Weiser to the International Monetary Fund.

Mr. Wolfowitz's nomination was received with both criticism and praise. According to Edwin Truman of the International Institute for Economics, "The truth of the matter is that Paul Wolfowitz is better qualified to be at the World Bank than many other possible contenders, on the other hand, he comes with a lot of baggage."[2] Many critics reportedly consider Mr. Wolfowitz to be the intellectual force behind U.S. operations in Iraq and are concerned that he may use the World Bank as another front on the so-called "global war on terror." According to one expert, former World Bank economist William Easterly, Mr. Wolfowitz "is the embodiment of Americans forcing other societies to adopt American values whether they want them or not."[3] The World Bank, under James Wolfensohn's direction has increased its work on governance reform in the past ten years, but the Bank's charter strictly forbids the institution from incorporating political decisions in its lending decisions. Several U.S. politicians have come out strongly for Mr. Wolfowitz's nomination. Senator Joe Biden of Delaware has commented that "I've had a lot of talks about Paul in European capitals. They know him as a serious intellectual and an engine of change." According to Senator Patrick Leahy of Vermont, "I know him to be an extraordinarily intelligent, creative thinker who has the potential to do a good job at the World Bank."[4]

Background

On January 2, 2005, World Bank President James Wolfensohn announced his intention to leave when his term ends this year, even though he is eligible for a third five-year term.[5] On January 3, Mr. Wolfensohn submitted notice to the Bank's board of shareholder governments that he will step down on May 31, 2005.[6] Mr. Wolfensohn's decision to resign formally marks the beginning of the search for the tenth president of the World Bank. Prior to Mr. Wolfowitz's nomination, individuals reported by the press to be under consideration by the Bush Administration were the following: former President Bill Clinton; Under-Secretary of the Treasury for International Affairs, John Taylor; Randall Tobias, the U.S.'s global AIDS coordinator; Christine Todd Whitman,

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[1] Paul Blustein and Peter Backer, "Wolfowitz Picked for World Bank," *The Washington Post*, March 17, 2004.

[2] "Wolfowitz Nominated to Be Next World Bank President," *Bloomberg*, March 16, 2005.

[3] Elizabeth Becker and David E. Sanger, "The World Bank Gets Nominee," March 17, 2005.

[4] Stephen Hayes, "Democrats for Wolfowitz," *The Daily Standard*, 3/16/2005, available at [http://www.weeklystandard.com/Content/Public/Articles/000/000/005/363ubjiw.asp]

[5] Paul Blustein, "World Bank Chief to Step Down in '05," *Washington Post*, January 3, 2005.

[6] Paul Blustein, "Wolfensohn Confirms Plan to Leave World Bank," *Washington Post*, January 4, 2005.

the former director of the Environmental Protection Agency; and Carla Hills, former President George H.W. Bush's Trade Representative.[7]

The World Bank is the largest of several multilateral development banks (MDBs) and is one of the world's largest sources of development assistance. It includes 184 member countries, who are jointly responsible for how the institution is financed and how its money is spent. The G-7/8 countries are the largest shareholders of the World Bank and play the largest role in setting its agenda.[8] The United States is the largest contributor to the World Bank ($25.8 billion committed, or 23.6% of total contributions committed) and has the largest voting share (14.5%).[9]

James Wolfensohn, the ninth World Bank President, arrived in 1995 after a successful career in international banking. He spent much of his career at Salomon Brothers in New York and Schroeder's in London before opening his own investment firm. Under his leadership, the Bank tackled many major issues including opening up the Bank to engagement with non-governmental organizations (NGOs) and other critics, and he pushed through various technology and management changes. He also introduced several anti-corruption initiatives, and steered a major global debt relief initiative for impoverished countries, the Highly Indebted Poor Countries Initiative (HIPC), launched in 1996.[10]

Issues of international development appear to be a priority for many World Bank members. The United Kingdom, currently presiding over the G-8 presidency, has urged more aid and greater debt relief and has called for a G-8 Summit in 2005 with international development as its focus.[11] U.K. Prime Minister Tony Blair has established a Commission on Africa that will issue recommendations in spring 2005. In September 2005, there will be a United Nations summit to assess progress toward its 2015 Millennium Development Goals. There will also be a WTO ministerial meeting in Hong Kong in December 2005 that will gauge progress on the so-called "Doha Development Round" of international trade talks.[12]

The Process for Selecting a New World Bank President

Leadership selection at the two major international financial institutions (IFIs), the IMF and the World Bank, is guided by tradition. For 60 years, the World Bank has had American President and the IMF has had a European Managing Director. This convention was the outcome of a "gentleman's agreement" struck at the 1944 Bretton

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[7] See [http://www.worldbankpresident.org/].

[8] The G-7 is France, the United States, Britain, Germany, Japan, Italy, and Canada. In 2006, Russia will host the G-8 summit, thus completing its process of becoming a full member.

[9] Treasury International Programs, FY2005 Budget Request Justification for Appropriations, p. 45.

[10] See *Foreign Operations Appropriations, FY2005* on the CRS website, page on "Debt Reduction — HIPC Initiative," [http://www.congress.gov/brbk/html/apfor11.html].

[11] Blair, Tony, "A Year of Huge Challenges," *The Economist*, December 29, 2004.

[12] CRS Report RL32645, *The Doha Development Agenda: The WTO Framework Agreement*.

Woods Conference establishing the two institutions. During the Bretton Woods negotiations, 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. According to then U.S. Secretary of the Treasury Fred Vinson, "the Bank would have to be headed by a U.S. citizen in order to win the confidence of the banking community."[13] Moreover, he noted, "it would be impracticable to appoint U.S. citizens to head both the Bank and the Fund."[14]

It is unlikely that the United States will break the tradition in its World Bank President selection. "The US administration would be sending a very strong statement if it nominated someone from a developing nation," according to William Cline, a senior fellow at the Center for Global Development. "But I would be very surprised if it did."[15] Rob Nichols, the Assistant Treasury Secretary for Public Affairs, has stated that the administration intends to conduct an "open, candid and transparent" selection process.[16] Nonetheless, many still criticize the process. The Financial Times of London editorialized that the "World Bank president is an executive post, yet the task of managing such a diverse organization, both knowledge bank and lender, with occasional shifts of priorities by shareholder governments, is difficult in the extreme. This position above all should be open to successful reformers from the developing world."[17]

Guidelines. The formal guidelines for choosing the World Bank president are found in its Articles of Agreement. The guidelines state that the Executive Board select a President — by a 50% majority — who shall not be a Governor or an Executive Director (ED) of a member country.[18] The U.S. candidate for World Bank President does not need to be confirmed by the Senate.

The U.S. candidate has never formally been challenged by other countries' EDs. In 1968, Bank EDs requested the United States to put forward several candidates for them to choose from. This request was rebuffed and President Johnson submitted only one name, Robert McNamara, former Secretary of Defense (1968 - 1981).[19] In 1995, a degree of transparency was added when a search committee was set up, chaired by Treasury of the Secretary Robert Rubin. After somewhat contentious negotiations, James Wolfensohn

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[13] Kahler, Miles, *Leadership Selection in the Major Multilaterals*, Institute for International Economics, 2001, p. 43.

[14] Ibid, p. 43.

[15] Swann, Christopher, "Wolfensohn to leave World Bank post in June," *The Financial Times*, January 4, 2005.

[16] Blustein, January 4, 2005.

[17] "The Wrong Kind of Executive Search," *The Financial Times*, January 11, 2005.

[18] The Board of Governors (BOG) is the highest authority in the IMF and all countries are represented, often at the finance ministry of treasury level. The Executive Board handles day-to-day authority over operational policy, lending, and other matters. The U.S. Executive Director is nominated by the President, confirmed by the Senate, and directed by the Department of the Treasury's Office of the Undersecretary for International Affairs.

[19] Kahler, p. 44.

was selected as the U.S. nominee.[20] The tradition of only nominating one candidate has continued with the United States only nominating Paul Wolfowitz.

The Debate Over the U.S.-EU Convention. The U.S.-EU arrangement is considered by many of its critics as a relic of the past. Whereas the United States clearly dominated the post-World War II economy (and Europe was the region that the World Bank was designed to reconstruct), the current international economy is less easily categorized. Moreover, the original rationale for the United States claiming World Bank leadership is obsolete. International capital markets, not United States financial markets are the major source of World Bank capital. In 2004, 34% of the World Bank's borrowing was in dollars and a substantial share of these were drawn from overseas dollar loan markets.[21] This was down from 51% in 2000. The World Bank is no longer solely reliant on domestic U.S. capital markets to finance its lending operations.[22]

Nonetheless, the United States (and the Europeans) are the largest contributors to the IMF and the World Bank. The willingness of the United States or Europe to support these institutions could be diminished if their contributions were not commensurate with influence.

Proposals for Reform. 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.

During the 2004 nomination of a new IMF Managing Director, a wide range of experts advocated revision of the IFI selection process. Moises Naim, editor of Foreign Policy magazine, commented that "the next chief executive of the IMF — and the World Bank — must be selected through a process that gives them and their institutions the legitimacy that only a competitive and transparent process can bestow." Nancy Birdsall, of the Center for Global Development, specifically pointed out the need to involve the major emerging markets of South American and Asia, as well as the world's poorest countries. According to Dr. Birdsall, "the unwillingness of the U.S. and the G-7 to share power and responsibility in the global financial institutions is already undermining the legitimacy and effectiveness of these institutions."

Issues Facing the World Bank

There are several differences between the United States and other Bank member countries over development issues which may complicate future assistance efforts during 2005. Gordon Brown, the chancellor of the U.K. Treasury has called for rich countries

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[20] See Kahler, p. 46-47.

[21] The World Bank Annual Report 2004 Volume 2, Financial Statements, p. 20, [http://www.worldbank.org/annualreport/2004/pdf/Volume_2.pdf].

[22] Kahler, p. 48.

to increase aid through various proposals such as an international finance facility (IFF), which would issue special bonds securitized on future government aid budgets. The U.S. government, Germany and Canada have said that their public finance rules would not allow them to participate in an IFF facility since they cannot account for borrowing up front. Dr. Taylor, by contrast has placed emphasis on increasing aid efficiency and not the volume of aid. This has complicated negotiations for debt relief. While the United Kingdom would like to write off all IMF and World Bank debt for all very poor countries (in addition to HIPC countries) with donor countries increasing contributions to the World Bank to fund the World Bank's debt reduction, the United States believes the World Bank can instead fund its own debt relief by refraining from providing loans to such countries and instead, moving to grant-based assistance with tighter performance requirements.

The World Bank and Congress

The 109th Congress could face action on issues involving the World Bank on various fronts. Congress must approve all U.S. appropriations to the institutions and has oversight authority over U.S. international economic policy. In the 108th Congress, hearings were held on various issues including anti-corruption policies at the MDBs, World Bank lending to Iran, regional international financial crises, and general oversight hearings concerning U.S. international economic policy and priorities at the institutions. Congress appropriated $1.38 billion to the MDBs in FY2004 and $1.219 billion in FY2005. This amount fell in between the House and Senate-passed levels, but $274 million, or 18.3% below the President's FY2005 request of $1.493 billion. Among the institutions, the largest cut falls on the International Development Association (IDA). In FY2005, the President requested $1.061 billion to cover the third of three scheduled annual contributions under the thirteenth three-year replenishment of IDA, IDA-13 ($850 million base payment plus $200 million of a U.S.-committed $300 million incentive contribution for increasing IDA performance standards).[23] The enacted IDA appropriation ($843.2 million) provides slightly less than the regular IDA contribution amount ($850 million), and does not fund the Administration's $200 million incentive payment.

Debates concerning grants and concessional loans to IDA countries and the appropriate financing for debt forgiveness are likely to be a part of congressional consideration for funding the 2005-2008 IDA-14 replenishment. The FY2006 budget request will likely include the first of three annual U.S. contributions for the IDA-14. Authorizing legislation will likely be submitted.

[23] In 2002, the Bush Administration announced it would contribute $300 million over three years ($100 million in FY2004, $200 million in FY2005) if the World Bank agreed to adopt specific steps to improve accountability and better measure the results of Bank-funded operations. The Administration certified in April 2003 and in June 2004 that IDA had achieved the two sets of reform targets and requested an additional $100 million and $200 million in fiscal 2004 and 2005 appropriations, respectively, as incentive contributions to IDA. (Congress, however, did not include this money in either the fiscal 2004 or 2005 appropriation.) The April 2003 announcement came following a meeting of IDA donors at which it was agreed that IDA had met the targets specified earlier for enhancing its performance standards.