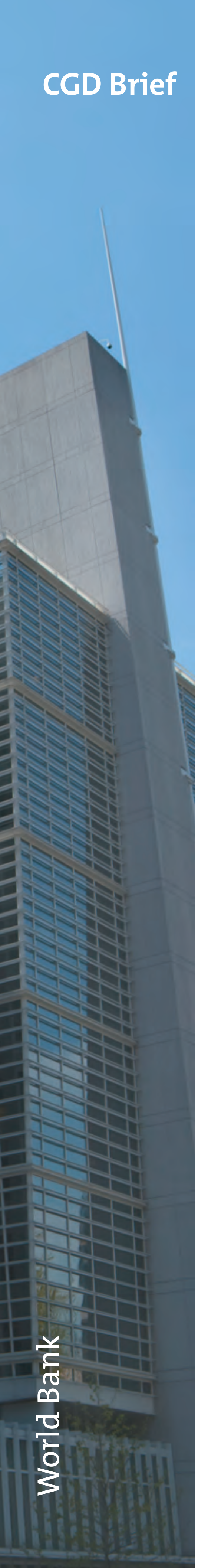


World Bank

Jenny Ottenhoff

The World Bank is a multilateral financial institution that provides financial and technical assistance for development in low- and middle-income countries. Finance is allocated through low-interest loans and grants for a range of development sectors such as health and education, infrastructure, public administration, financial and private-sector development, agriculture, and environmental and natural resource management.[1]

The World Bank's Two Windows

The World Bank has two main funds, often called lending windows: the International Bank for Reconstruction and Development (IBRD) and the International Development Association (IDA). In general, IBRD loans cost more and are intended for middle-income developing countries while IDA loans cost much less and are intended for low-income countries. Some creditworthy low-income countries, such as India, Indonesia, and Pakistan are eligible for a blend of assistance from both IBRD and IDA (see table 1).

Table 1
IBRD & IDA Fast Facts

	IBRD	IDA
Established	1944	1960
Members	187	170
Lending Window	Hard (nonconcessional)	Soft (concessional)
Lending (FY10) (billions USD)	$44.2	$14.5

The IBRD is considered the bank's hard lending window. It borrows on international capital markets at attractive rates, taking advantage of the World Bank's AAA credit rating, and relends the money to developing countries, passing along most of the benefits but raising the price slightly to cover the World Bank's operating expenses and generate funds for other purposes, including grants to the poorer countries. IBRD loans are intended for middle-income and credit-worthy lower-income countries and generally must be repaid within 12 to 15 years. In FY2011, the largest IBRD borrowers included India, Mexico, South Africa, Brazil, Turkey, Indonesia, Egypt, and China.

IDA, the World Bank's soft lending window, provides grants and highly concessional loans (with low interest rates and long repayment periods) to the world's poorest countries. IDA lends to nations whose annual per capita incomes fall below $1,175; it is one of the largest sources of development assistance for these countries, half of which are located in sub-Saharan Africa. IDA loans are nearly interest-free and have a maturity of 40 years with a one-year grace period. In FY2010, the largest IDA recipients included India, Vietnam, Tanzania, Ethiopia, Nigeria, Bangladesh, Kenya, and Uganda.

Membership

The World Bank is owned by 187 member governments. Each member government is a shareholder, with the number of shares based roughly on the size of its economy and (for high-income countries) the capital pledged to back up the World Bank's borrowing on capital markets. The United States is the largest single shareholder, with 16.03 percent of votes, followed by Japan (9.59%), Germany (4.39%), the United Kingdom (4.21%) and France (4.21%). The remaining shares are divided among the other member countries. Since any change in the bank's Articles of Agreement requires an 85 percent majority, the United States is the only member country with veto power over changes to how the Bank is structured. High-income countries collectively hold 65.92 percent of the votes. Developing-country borrowers share 34.08 percent of the votes. The 48 sub-Saharan African nations share 5.35 percent of the votes. Each member state of the World Bank must also be a member of the International Monetary Fund (IMF).

Governance

The organizational leadership structure at the World Bank is made up of the board of governors, the board of executive directors, and the president. The board of governors is the highest decision-making body and consists of one governor for each member country, generally a member country's minister of finance. They meet once a year at the annual meetings of the boards of governors of the International Monetary Fund and the World Bank Group. Governors delegate day-to-day authority over operational policy, lending, and other business matters to the board of executive directors, who work on-site at the institution's headquarters. There are 25 members on the World Bank's board of executive directors, representing all 187 member countries.

The president of the World Bank is responsible for the overall management of the institution and serves as the chair of the board of directors. Historically, selection of the president of the World Bank is based on an unwritten, informal understanding between the United States and Europe which allows the United States to name the president of the World Bank and the European governments to name the president of the IMF. Formally, the selected leader is approved and appointed by the board of directors to serve a five-year term, renewable once.

Where in the World Is the World Bank?

The World Bank is headquartered in Washington, D.C., and is the third largest employer in the city. The bank also has offices in more than 109 countries and employs nearly 10,000 staff members throughout the world.

Funding

The World Bank's hard and soft lending windows obtain their funding in different ways. Backed by the capital commitments of its 186 shareholder governments, the World Bank enjoys a AAA credit rating

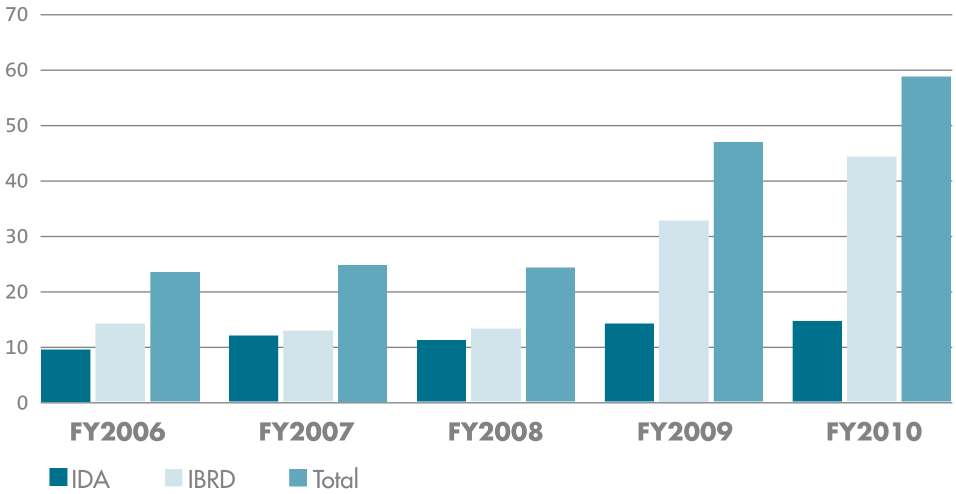
Distinguishing the World Bank from the IMF

The World Bank and the International Monetary Fund (IMF) are distinct institutions with very different roles in the global community. While they share a few similarities—they are both headquartered in Washington, D.C., and they both provide financial assistance to member countries—they differ in size, scope, and mandate. The World Bank focuses on poverty reduction and development while the IMF focuses on maintaining and promoting global financial stability.

The World Bank offers long-term loans to poorer countries for development while the IMF offers short-term loans to financially distressed countries for general budget support. The World Bank also offers financial assistance in the form of concessional loans and grants to poorer countries while the IMF does not. See the table below for more comparisons between the two international financial institutions.

	World Bank	IMF
Membership	187 member countries	187 member countries
Headquarter	Washington, D.C.	Washington, D.C.
Staff	10,000	2,400
Funding	Subscribed capital of $189 billion	Subscribed quotas $376 billion (as of 5/25/11)
Recipients of Funding	Middle- and low-income countries	All member countries
Biggest Borrowers (FY2010)	IBRD—India, Mexico, South Africa IDA—India, Vietnam, Tanzania	Greece, Portugal, Ireland
Focus	Long-term poverty reduction and sustainable development	Macroeconomic and global financial stability
Institutional Tools	• Long-term loans (concessional and nonconcessional) • Grants • Technical support and expertise	• Financial assistance (concessional loans) • Surveillance of the international monetary system • Technical assistance

Figure 1
Annual Commitments FY06–FY10 (billions USD)



which allows it to borrow at the lowest possible rate and relend at market rate. The margin earned on these loans, as well as the return on equity, allows the IBRD to be self-financing.

IDA loans are funded largely by contributions from richer donor countries and are replenished every three years. Additional funding comes from the IBRD's income and from repayments of IDA credits. The last IDA replenishment negotiations took place in 2010 and totaled $49.3 billion, of which the United States pledged $4.1 billion over three years. The United States has historically made the highest cumulative contributions to IDA. Recent U.S. contributions to IDA have been well below its historical share, and other countries—notably the United Kingdom—have played a more predominant role. Other top donor states include Japan, Canada, and those in Western Europe. The next IDA replenishment talks will begin in 2013.

Lending

The amount of lending the World Bank provides depends on demand and varies widely from year to year. In recent years, annual World Bank lending has ranged from a low of US$23.6 billion in 2006, to a record high of US$58.7 billion in 2010, when lending increased to help developing countries cope with the effects of the global financial crisis (see figure 1). Of this sum in 2010, IDA commitments totaled $14.5 billion, of which 18 percent was provided through grants (see table 2, next page). IDA accounts for nearly 25 percent of the World Bank's lending.

Is the World Bank a Bank?

While the World Bank lends and manages some of its funds much like a commercial bank, it is different in several important ways. First, the World Bank lends to developing countries at lower rates than traditional markets would give to borrowing governments. Loans are used to support social and economic development projects in middle- and low-income countries. The World Bank is able to provide loans at low rates because it maintains an AAA credit rating through well-managed financial reserves from shareholder subscriptions. Unlike a commercial bank, the World Bank also provides interest-free loans and grants to low-income countries. These concessional loans are primarily funded by shareholder contributions. Repayment periods on World Bank loans are generally longer than commercial banks, some as long as 35 or 40 years.

Issues for Congress

Funding: Congressional legislation is required for U.S. financial contributions to the World Bank. Replenishments of IDA occur regularly; a capital increase for the IBRD happens more infrequently. The Obama administration requested U.S. participation in a capital increase for the World Bank in the FY2012 budget, largely because World Bank lending increased following the global financial crisis.

Oversight: Congress exercises oversight of U.S. participation in the World Bank through legislative mandates, which can influence certain institutional policies and withhold funding unless certain institutional reforms are met.

U.S. Commercial Interests: Over the last decade, U.S. firms and individuals received nearly 2,500 World Bank procurement contracts totaling over $1.6 billion globally. The World Bank is considering major changes in how companies bid on World Bank projects. Given U.S. commercial interests in the bank, this is an area for Congress to monitor.

Effectiveness: The effectiveness of the World Bank in spurring economic development and reform in developing countries is debated, particularly issues related to transparency, efficiency, control and leveraging of funds.

Read more about issues for congress in CRS Report R41170, "Multilateral Development Banks: Overview and Issues for Congress."

Table 2
IBRD and IDA Commitments

	FY11 and FY10 (billions USD)	
	FY11*	**FY10**
IBRD	26.7	44.2
IDA	16.3	14.5

Preliminary and unaudited numbers as of July 1, 2011

Future Outlook

In 2012, the World Bank may undergo a leadership transition if the bank's current president, Robert Zoellick, leaves at the end of his first five-year term in July. The World Bank presidency has always been held by an American, but recent calls for reform challenge this unofficial convention and highlight a changing landscape in global economic power.

The World Bank will also face significant budgetary considerations following the 2008–09 financial crises. During this time, the World Bank dramatically increased nonconcessional lending to developing countries. This played a critical role in helping middle- and low-income countries cope with the crisis and aided the recovery in high-income countries. While the IBRD did not lose capital during the financial crisis, its lending tripled. In order to maintain its AAA credit rating while playing a countercyclical role in the crisis, the bank and its shareholders agreed to a package of reforms to increase its capital. As part of this package, member countries pledged to contribute to a general capital increase.[2]

The request for a general capital increase for the IBRD is unusual and results from the World Bank's role in helping to maintain economic stability and support growth in developing countries during the crisis. This action was undertaken at the request of the international community, as expressed in the declarations issued at the 2009 G-20 London Summit. The United States and other nations have a common interest in ensuring that the World Bank is both well managed and well funded.

Endnotes

Jenny Ottenhoff is a policy outreach associate at the Center for Global Development. She benefitted from insight and feedback from Lawrence MacDonald, Sarah Jane Staats, and Todd Moss during the drafting of this brief, which draws on previously published work, including the 2010 World Bank annual report.

1 A broader term, The World Bank Group, includes these lending and grant-making activities and three separate entities: the International Finance Corporation (IFC), which provides finance to private companies in the developing world; the Multilateral Investment Guarantee Agency (MIGA); and the International Centre for Settlement of Investment Disputes (ICSID). This brief focuses on the World Bank's two main windows.

2 Read more about the general capital increases in the companion brief "The ABCs of the General Capital Increase."

The ABCs of the IFIs: Understanding the U.S. Role in Shaping Effective International Financial Institutions for the 21st Century

The International Financial Institutions (IFIs) are major sources of financial and technical support for developing countries and play a critical role in promoting economic development and global stability. As the interests of high-income and developing countries become more linked, the role of the IFIs will become even more prominent.

The United States and other nations have a common interest in ensuring that the IFIs are well managed and well funded. This CGD brief is one of six on the financial and governance issues facing the IFIs. Please email publications@cgdev.org to receive any of the others:

- The World Bank
- The International Monetary Fund
- The International Finance Corporation
- The Regional Development Banks
- Leadership Selection at the IFIs
- The ABCs of the General Capital Increase

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