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2018 World Bank Capital Increase Proposal

On October 12, 2018 World Bank members, including the United States, approved a $60.1 billion capital increase for the World Bank's main lending facility, the International Bank for Reconstruction and Development (IBRD), which would raise the IBRD's capital from $268.9 billion to $329 billion. World Bank members also endorsed a $5.5 billion capital increase for the International Finance Corporation (IFC), the World Bank's private-sector lending arm, which would more than triple the IFC's capital base from $2.57 billion to $8.2 billion. Congress would need to fully authorize and appropriate funds for any U.S. participation in the proposed capital increase. In testimony before the House Financial Services Committee in December 2018, Treasury Undersecretary David Malpass committed to work with Congress over the coming months to prepare the necessary legislation to move forward with the U.S. contribution to the capital increase.

According to the Bank, the capital increase would allow the Bank to provide an annual average of $100 billion in development support. Over the past five years (2013-2017), total World Bank annual support averaged $59 billion. Bank leadership is aiming for final approval of the capital increase package at the October 2018 annual meetings.

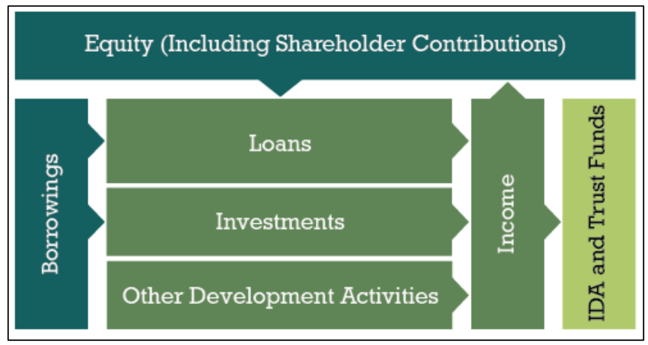
The Trump Administration supports the capital increase, which will be accompanied by reforms designed, in part, to address a longstanding concern for many U.S. policymakers: high levels of World Bank lending to upper-middle income countries, especially China. In a statement at the 2017 IMF and World 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." Mnuchin also highlighted the issue of shifting World Bank lending to poorer countries through income-based country lending allocation targets and differentiated loan pricing.

What is the World Bank?

The World Bank is a multilateral development bank (MDB), established in 1945, 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.

Technically, the term, "World Bank" refers to two entities: the IBRD and the International Development Association (IDA), which lend directly to governments to finance development projects and policy programs in member countries. The IBRD's primary activity is providing near-market rate, long-term loans (up to 35 years) to eligible member countries. IBRD loans are financed through its equity and from borrowing in the international capital markets (**Figure 1**). MDBs are able to borrow from international capital markets on favorable terms because of their AAA ratings, which in turn reflect their strong capital positions, their record of obtaining loan repayment, and the additional backing of callable capital. Funds not deployed for lending are maintained in IBRD's investment portfolio to supply additional liquidity for lending operations.

Figure 1. IBRD Business Model



Source: The World Bank, Adapted by CRS.

IDA was established in 1960 to complement the IBRD by extending zero or low-interest loans to developing and least developed countries. IDA loans are mainly supported by annual contributions by World Bank member countries, but increasingly, IBRD is also making transfers to IDA, as well as several World Bank trust funds. In addition to its lending operations, the World Bank provides financial management services for funds such as the Afghanistan Reconstruction Trust Fund, the Global Fund to Fight AIDS, Tuberculosis and Malaria, and the Global Environment Facility. As of the end of FY2017, the World Bank managed $31.6 billion in multi-donor trust funds.

Three other World Bank-affiliated organizations are dedicated to supporting the private sector. The IFC promotes private sector development in poor and developing countries by making loans and investments in small- and medium-sized companies. The Multilateral Investment Guarantee Agency (MIGA) provides private investors insurance coverage against non-commercial risk in developing countries. The International Center for the Settlement of Investment Disputes (ICSID) facilitates investor-state dispute settlement.

2018 Capital Increase Proposal

The 2018 capital increase proposal is only for the IBRD and the IFC (**Table 1**). The capital that the United States and other shareholders contribute to the IBRD comes in two forms: (1) "paid-in capital," which requires the transfer of funds to the Bank; and (2) "callable capital," which are funds that shareholders agree to provide, but only when necessary to avoid a default on a borrowing by the World Bank itself. (A member country defaulting on a World Bank loan would not cause the Bank to draw on its callable capital.) The IFC does not use callable capital and relies on its own earnings ($22 billion as of the end of FY2017) for the majority of its capital. Neither the World Bank, nor any other MDB, has ever had to draw on its callable capital. Unlike the IBRD, the IFC only has paid-in capital.

The IBRD request is technically a combination of a general capital increase (based on the increases proportionate to existing shareholder) and a selective capital increase, which would increase the share of some countries more than others in order to alter the relative voting power of member countries.

Table 1. Proposed World Bank Capital Increase

Proposed Increase	Amount ($ in billions)
IBRD	
General Capital Increase	
Paid-In Capital	$5.6
Callable Capital	$22.2
Selective Capital Increase	
Paid-In Capital	$1.9
Callable Capital	$30.4
IFC	
Paid-In Capital	$5.5 billion

Source: World Bank

If approved by the World Bank's membership, the capital increase package includes several reforms.

- Further enhancing the voice and participation of so-called "developing and transitional economies," including increasing China's voting power.
- New guidelines for the World Bank lending portfolio in order to reduce lending to middle-income countries and direct more funding (70% of total lending) to lower income countries.
- Introduction of differentiated pricing based on country income status, with higher income countries paying more than the Bank's other borrowers;.
- Separate funding for the World Bank to engage on "global public goods," such as climate risk, global pandemics, tax information sharing, agriculture, etc.

The main beneficiary of the rebalance is China, which would see its voting power increase from 4.45% to 5.71%. Following China, the next largest increase in voting power is Sweden, whose voting power increases from 0.85% to 0.89%. According to analysis by the Wall Street Journal, a total of 52 countries took small cuts to their voting shares to effectuate China's increase; for 50 of them, the cut was less than 0.1% percentage points.

The United States would see a small decline in voting power, from 15.98% to 15.87%, but remains the largest shareholder and the only country with veto power over the most important World Bank voting decisions (i.e., those requiring an 85% majority). At 5.71%, China remains the third largest shareholder, behind Japan, which would have 6.83% of total voting power if the reforms go in effect.

Despite its increase in voting power, China's World Bank voting power remains well below its share of the global economy—18.7% (based on purchasing power parity (PPP) according to the IMF's April 2018 World Economic Outlook. By contrast, the U.S. share of world GDP (PPP) is 15.12% compared to voting power of 15.87%. Under the current proposal, the U.S. share at the IFC after the capital increase would decrease and its voting power would decline from 20.99% to 16.39%.

The proposed capital increase comes eight years after the previous World Bank capital increase ($87 billion) in 2010. With the exception of small selective capital increases to adjust relative shareholding, the Bank has raised its capital base four times: 1959, 1979, 1988, and 2010 with U.S. support.

The United States and the World Bank

The United States is the largest contributor to the World Bank; accounting for the largest share of the IBRD's subscribed capital, $46.4 billion (17.25%) of a total of $270 billion. Of the U.S. contribution, $2.9 billion is paid-in capital. 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 fully authorized. However, only a portion, $7.7 billion, has been appropriated and could be used by the World Bank without need for further congressional action.

Since the 1982 foreign operations appropriations bill was adopted, Congress has authorized but not appropriated callable capital. U.S. law (22 U.S.C. 286c) requires that Congress give its assent before the United States can vote in favor of a new IBRD funding plan that increases U.S. contributions According to its Articles of Agreement, an IBRD capital increase requires approval by members holding at least 75% of total voting power. Since the United States has voting power of 15.98%, it cannot veto an IBRD capital increase. At the IFC, a capital increase requires an 80% majority of the total voting power. Since the U.S. voting share at the IFC exceeds 20%, U.S. support is thus required for the IFC capital increase to proceed, regardless of whether the United States decides to financially participate in the IFC capital increase.

The U.S. government is seeking as a a pre-condition to voting for the entire World Bank capital increase, that the IFC Articles of Agreement be amended to increase the share of voting power required from 80% to 85% for any future IFC capital increase to preserve U.S. veto over any future IFC capital increases.

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