Congress of the United States

Washington, DC 20510

September 24, 2020

The Honorable Gene Dodaro
Comptroller General of the United States
Government Accountability Office
441 G Street, NW
Washington, D.C. 20548

Dear Mr. Dodaro:

The United States is the largest contributing member of the World Bank's International Development Association (IDA), an international organization established in 1960 to provide development financing to lower income countries.[1] On March 31, 2020, IDA's Nineteenth Replenishment of resources (IDA19) was approved and the Board of Governors agreed that IDA will make $82 billion in new commitments over the three-year replenishment period. The United States pledged to contribute $3 billion, or about 9 percent of the total donor contribution.

IDA has traditionally financed its operations with its own equity, which includes contributions from member countries raised as part of periodic replenishments. Since FY 2018, IDA has included market debt in its business model. According to IDA, "leveraging its equity and blending market debt with additional contributions from members allows IDA to support the escalating demand for its resources".[2] Additionally, IDA has financed its operations with borrowings from members through Concessional Partner Loans (CPLs). IDA claims that raising funds from the capital markets by leveraging IDA's equity will enable more efficient use of donor contributions, thereby allowing IDA to significantly scale up development financing for low-income countries.

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[1] Eligibility for IDA support depends first and foremost on a country's relative poverty, defined as Gross National Income (GNI) per capita below an established threshold and updated annually ($1,185 in fiscal year 2021).Currently, there are 74 IDA-eligible countries with 59 IDA-only and 15 blend countries. Blend countries are IDA-eligible but also creditworthy for non-concessional borrowing.

[2] *Information Statement International Development Association*, September 25, 2019, Washington, D.C.

However, raising funds in capital markets poses risks for IDA as well as for borrower countries particularly considering the devastating impact of the COVID-19 pandemic on the global economy. We are concerned about IDA's ability to maintain its current level of concessional lending to low-income countries when IDA is both borrowing funds at market rates and providing some loans at non-concessional rates. If IDA does not achieve its financing projections because recipient countries struggle to repay their IDA obligations, then member countries—including the United States—will likely need to increase their contributions in future replenishments simply to sustain lending volumes.

Moreover, the United States has historically been a major contributor in the global efforts to provide debt relief to developing countries; however, over the past five years, public debt levels have risen significantly due to borrowing from commercial and sovereign lenders, notably China, with about half of IDA countries now at a high risk of external debt distress or in debt distress.[3] These rising debt levels provide additional concerns regarding countries' ability to repay loans from IDA, particularly as IDA introduces non-concessional lending.

Additionally, it is our understanding that IDA assumes contributions to future replenishments from member countries will be held at least constant, on an inflation-adjusted basis, in its financing projections. We would note, however, that the Treasury Department, in its recent budget justifications, has pointed to IDA's market borrowing as allowing decreased donor contributions.[4] In fact, the current Administration has made a reduction in U.S. contributions to replenishments part of its reform agenda at the multilateral development institutions.[5]

To assist the Congress in carrying out its responsibility to oversee U.S. participation in the multilateral development banks, and oversight of U.S. contributions to IDA in particular, and to prepare for upcoming negotiations for the next scheduled IDA replenishment in 2023 and beyond, we request that

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[3] *Addressing Debt Vulnerabilities in IDA Countries: Options for IDA-19*, June 4, 2019.

[4] *Department of the Treasury International Programs, Congressional Justification for Appropriations FY 2018*, see pp 6-7: "This increase in IDA resources is achieved by IDA leveraging its own equity by borrowing from markets, while allowing for a decrease in donor contributions," and *Department of the Treasury International Programs, Congressional Justification for Appropriations FY 2019,* see p. 6, "IDA is planning to leverage future reflows by borrowing from markets for the first time while allowing for a decrease in donor contributions…"

[5] *Written Statement of Treasury Under Secretary for International Affairs David Malpass* before the House Financial Services Subcommittee on Monetary Policy and Trade, December 12, 2018. See page 9.

GAO analyze IDA's financing model, financial viability, and risk management. Specifically, we ask GAO to review the following:

1. What is the current and projected composition of IDA's financing sources, including the amount of bonds IDA has issued, member subscriptions and contributions, investment income and CPL loans? What assumptions has IDA built into its model for projecting the composition of its financing sources and uses?
2. What is the process IDA uses to estimate and assess the impact of raising funds from the capital markets on its needs in future replenishments? How will raising funds from the capital markets affect IDA's lending capacity for both non-concessional and concessional loans as well as grants? How will IDA's inclusion of market debt in its new policy and financing framework affect the risks of debt distress in IDA countries?
3. How does IDA include borrower countries' debt sustainability analyses in its financing projections? How has the COVID-19 pandemic affected countries' ability to service their debt repayments and IDA's projection of resource needs? What is the quality of information IDA has on borrowing countries' debt obligations, including to non-Paris Club members?
4. How does the U.S. government, through its membership on the IDA Board, assess the measures IDA has put in place to maintain its financial sustainability and manage risks, particularly in the current economic and financial environment? What performance indicators does the U.S. government rely on to monitor IDA's financial stability and risk management?

If you have any questions about this request, please contact Daniel McGlinchey, Director of International Affairs, Committee on Financial Services at 202-225-3548 or Daniel.McGlinchey@mail.house.gov.

Sincerely,

Maxine Waters

MAXINE WATERS
Chairwoman
House Committee on Financial Services

Patrick Leahy

PATRICK LEAHY
Vice Chairman
Senate Committee on Appropriations