MEMORANDUM

To: Members of the Committee on Financial Services

From: Financial Services Committee Majority Staff

Date: May 22, 2023

Subject: May 25, 2023, National Security, Illicit Finance, and International Financial Institutions Subcommittee Hearing Entitled "International Financial Institutions in an Era of Great Power Competition."

On Thursday, May 25, 2023, at 9:00 a.m. in Room 2128 of the Rayburn House Office Building, the Subcommittee on National Security, Illicit Finance, and International Financial Institutions will hold a hearing entitled "International Financial Institutions in an Era of Great Power Competition." The following individuals will testify:

- **Jesse M. Schreger:** Associate Professor of Business, Columbia Business School
- **Mark Rosen:** Partner, Advection Growth Capital and former Acting Executive Director, International Monetary Fund (IMF)
- **Daniel F. Runde:** Senior Vice President, Center for Strategic & International Studies (CSIS)
- **Rich Powell:** Chief Executive Officer, ClearPath & ClearPath Action
- **Dr. Daouda Sembene**: Distinguished Nonresident Fellow, CGD and CEO, AfriCatalyst

Hearing Background

The global economy is facing gathering challenges with rising interest rates and a looming economic slowdown. For FY2024, the Biden Administration is requesting $4.04 billion for the international financial institutions (IFIs). These include the International Monetary Fund (IMF), the multilateral development banks (MDBs), and associated multilateral trust funds focused on climate change and food security. The FY2024 request for the IFIs is 70 percent more than the amount in FY2023 ($2.36 billion) and accounts for about 6percent of the total FY2024 Department of State, Foreign Operations, and Related Programs (SFOPS) budget request.[1]

Sovereign Debt Concerns in Developing Countries

Low- and middle-income countries' debt rose on average 5.6 percent in 2021 to a total of $9 trillion. The COVID-19 pandemic and Russia's war on Ukraine had significant economic and

---

[1] https://crsreports.congress.gov/product/pdf/IF/IF11902

financial consequences for low-income countries, pushing 97 million more people into poverty in 2020. Since the end of 2019, nine countries (Argentina, Belize, Ghana, Ecuador, Lebanon, Sri Lanka, Russia, Suriname, and Zambia) defaulted on sovereign debt obligations.

A majority (60 percent) of low-income countries face "debt distress." This means that there is a risk that a country may be unable to meet its financial obligations without debt restructuring or possibly debt forgiveness. As of January 31, 2023, nine countries are in debt distress, 28 countries are at high risk and 25 countries are at moderate risk. From 2019 to 2020, overall borrowing jumped by 28 percentage points to 256 percent of GDP, with government borrowing accounting for about half of this increase.

Since 2015, China has been the largest creditor to low-income countries, surpassing the IMF, the World Bank, and the Paris Club (a core group of traditional donor governments including the United States and 21 other countries but not China). Unlike the others, China rarely discloses the amounts or terms of its bilateral debt agreements, and estimates are that half of China's official lending to developing countries is not reported in debt statistics.

In 2020, to respond to COVID-related economic shocks, G7 Finance Ministers under the U.S. G7 Presidency conceived the Debt Service Suspension Initiative (DSSI). The DSSI was vetted through the Paris Club, and ultimately adopted by the G20 on April 15, 2020, in conjunction with private creditors. DSSI temporarily suspended interest and principal repayments on G-20 official bilateral loans through the end of 2020. It was later extended through December 2021. Over that period, it delivered more than $8.9 billion in official debt relief to more than 48 of the 73 eligible countries.

The G20 and the 22 members of the Paris Club, comprising 39 countries (including China), subsequently endorsed a new "Common Framework for Debt Treatments beyond the DSSI" for providing permanent debt forgiveness. Debt treatment options under this framework include extending the duration of sovereign debt and in extreme cases, debt write-offs or cancellation. Only three eligible countries have requested Common Framework debt relief: Chad, Ethiopia, and Zambia. Governments of many eligible countries may be concerned that seeking debt restructuring, especially with commercial creditors, will lead to ratings downgrades and reduce their future access to financing as has happened previously. For example, . Moody's downgraded Ethiopia's sovereign bonds, in part due to the possibility that a Common Framework agreement might cause private creditor losses.

Congressional authorization is necessary for the United States to participate in multilateral debt relief efforts. The FY2022 budget requested $52 million to restructure and lower U.S. interest rates charged to the 48 countries that requested payment suspensions under DSSI.[2]

[2] https://crsreports.congress.gov/product/pdf/IF/IF11880

International Financial Institutions (IFIs)

U.S. funding for the IFIs is administered by the Treasury Department, which is responsible for managing U.S. participation in these institutions. Congress authorizes and appropriates U.S. contributions to the IFIs. The House Committee on Financial Services and the Senate Committee on Foreign Relations are responsible for managing MDB authorization legislation. The SFOPS Subcommittees of the House and Senate Committees on Appropriations manage the relevant appropriations legislation. Over the past several decades, authorizations and appropriations for U.S. contributions to the IFIs have been included in annual SFOPS appropriations or larger omnibus appropriations acts.

International Monetary Fund (IMF)

The International Monetary Fund (IMF, or the Fund), founded in 1945, is an international organization that works to ensure the stability of the international monetary system. The United States is a founding member of the IMF and the largest financial contributor. Congress helps shape U.S. participation in the IMF through oversight, appropriations, and other legislation. Key issues for Congress include IMF support for Ukraine, possible IMF sanctions on Russia, China's role at the IMF, and COVID-19 response efforts.[3]

The World Bank

The World Bank, the oldest and largest multilateral development bank, provides financial assistance to developing countries to promote economic development. Established in 1945, the Bank initially focused on providing financing for large infrastructure projects. During the past 75 years, its role has broadened to include poverty reduction efforts through social projects (such as education and health) and policy-based loans. Congress appropriates U.S. financial contributions to the World Bank and exercises oversight of U.S. participation in the Bank.[4]

1. **Legislation: H.R. ___, The "Anti-Chinese Coercive Practices Act of 2023"**

   This legislation would require the United States Governor of the International Monetary Fund to work to establish a trust at the International Monetary Fund to promote rule-based trade, and for other purposes.

2. **Legislation: H.R. _____, "To require the Secretary of the Treasury to instruct the United States Executive Directors at the international financial institutions to advocate for investment in projects that decrease reliance on Russia for agricultural commodities"**

   This bill states that the U.S. Executive Directors of the International Financial Institutions shall use voice, vote, and influence of the US to encourage the International Financial Institutions to invest in projects that decrease reliance that countries have on Russia for agricultural commodities, particularly fertilizer and grain, and to stimulate private investment in such projects.

---

[3] https://crsreports.congress.gov/product/pdf/IF/IF10676
[4] https://crsreports.congress.gov/product/pdf/IF/IF11361