Support for IFIs Needed in U.S. International Assistance for COVID-19 Response

An effective, global response to COVID-19 requires unprecedented coordination at a multilateral level. The IFIs provide both international as well as regional platforms for such coordination, as well as critical resources for data collection and knowledge sharing that the international community relies on to understand the scope and severity of the crisis.

For over 75 years, and particularly in times of international crisis, the United States has turned to the IFIs to effectively leverage scarce resources for crisis response, recovery, rebuilding and to promote strong standards for aid effectiveness, transparency, and accountability. The IFIs are uniquely positioned to pool and allocate resources from donor countries, as well as to borrow at the lowest rates in capital markets, which increases the ability of the United States to burden share and achieve positive outcomes beyond what it can accomplish through bilateral programs alone.

In addition to various lending instruments that provide low or no interest financing, as well as grant assistance to low-income countries, the IFIs also contribute unparalleled data and knowledge. They will be critical as we look to “build back better” from this unprecedented economic and health crisis.

The IFIs have a range of tools that are already anchoring the international response to the pandemic and the resulting economic fallout:

- By mid-May, the World Bank announced its emergency response operations had reached 100 countries.
- The World Bank and IMF led an initiative that saw G20 leaders including the US agree to a temporary bilateral debt service suspension for low-income countries. It is already providing a $5 billion+ benefit to low-income countries and has potential for further extension.
- As of July 2020, the International Monetary Fund has approved debt service relief for 29 countries, through the Catastrophe Containment and Relief Trust Fund (CCRT).

More can still be done through the IFIs, and Congress should strongly encourage Treasury to utilize all available facilities and tools to maximize U.S. support for developing countries through the IFIs at this critical moment. While the institutions are multilateral in nature, the U.S. wields significant influence as the largest historical donor, and should continue to steer the institutions toward:

- Investments that are conflict-sensitive and that do not inadvertently increase fragility.
- Convening external stakeholders, including civil society, to design and implement strategies and response efforts.
- Strengthening their systems for transparency and accountability.

Various organizations and experts, including members of the International Financial Institutions Working Group, have called on the administration and Congress to complement bilateral assistance for the global COVID-19 response by expanding their approach through the IFIs in the following ways. The proposals listed here reflect the multifaceted nature of the crisis, and the need for shoring up the broad range of tools the IFIs possess to address it. These actions should be considered in addition to regular, annual appropriations to replenishments of the concessional lending windows of all the Multilateral Development Banks that are currently providing vital support to low income countries. We summarize the leading calls for action here without direct endorsement by the IFI Working Group itself.
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<td><strong>Provide resources to increase capacity of key IMF trust funds.</strong></td>
<td>The IMF’s Poverty Reduction and Growth Trust (PRGT) facility, which provides <em>concessional loans</em> at zero-interest to low-income countries and the Catastrophe Containment and Relief Trust (CCRT), which provides <em>grants</em> to the Fund’s poorest and most vulnerable members to cover their IMF debt obligations. Both rely on donor contributions. Other IMF members have pledged new contributions during the crisis, but the United States has not yet made a commitment.</td>
<td><strong>Legislative Action Needed:</strong> Appropriate $1 billion for the PRGT and CCRT. Congress could also authorize the reallocation of excess U.S.-held SDRs (approximately $1.5 billion) to the PRGT or other IFI funds for the poorest economies. This would require a small appropriation.</td>
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<td><strong>Negotiate and approve a new issuance of Special Drawing Rights (SDRs).</strong></td>
<td>SDRs are an international reserve asset created by the IMF, and new issuances of this asset can be created in times of crisis to boost liquidity for member states. This mechanism was activated in the 2008-2009 financial crisis, and there are renewed calls for a new issuance of $500bn-$3tn to help boost available funds for all countries and especially those in need. As the IMF’s largest member, the US government has an effective veto on any new SDR allocation.</td>
<td><strong>Executive Action Needed:</strong> The Secretary of the Treasury can vote to approve an SDR allocation of up to $649 billion, after giving a 90-day notice to Congress, without advance congressional approval. <strong>Legislative Action Needed:</strong> An SDR issuance over $649 billion requires congressional authorization. No additional appropriation would be needed.</td>
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<td><strong>Support further debt relief for poor countries.</strong></td>
<td>In April 2020, the G20 agreed to the Debt Service Suspension Initiative (DSSI), championed by the leaders of the World Bank and IMF to suspend official bilateral debt payments due from IDA eligible countries in 2020. This is a crucial starting point, but as the debt picture worsens for many poor countries, deeper and broader debt relief will need to be considered. Creditor participation in the DSSI has been uneven, and there have been calls for MDB’s to cancel or at least temporarily suspend debt payments. Debt relief could be supported through donor contributions, reallocating SDRs, IMF gold sales, or other reserve capital.</td>
<td><strong>Executive Action Needed:</strong> Treasury can commit through the G20 to extend the DSSI through at least 2021, explore and advance ways for the private sector and multilateral creditors to participate, and include Middle Income Countries that are at risk of deep sovereign debt crisis in the DSSI.</td>
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<td><strong>Contribute to the COVID-19 Rural Poor Stimulus Facility launched by IFAD.</strong></td>
<td>The Rural Poor Stimulus Facility (RPFS) aims to “safeguard the food security and resilience of poor rural people by ensuring timely access to inputs, information, markets and liquidity”. IFAD launched the RPFS with $40 million from its own resources and is asking donors and governments to provide an additional $200 million.</td>
<td><strong>Legislative Action Needed:</strong> Congress should appropriate significant funds to the RPFS. A US contribution would encourage contributions from other donors and governments.</td>
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### Support a strong US pledge to IFAD’s 12th Replenishment.

IFAD is seeking to replenish its resources through donor contributions in order to support its core operations in the midst of the pandemic. The US has historically been among the fund’s largest donors, and a strong US pledge this year will be important to achieving an overall replenishment of resources that can sustain IFAD’s financing activities through the crisis period.

**Executive Action:** Treasury should restore the leadership position of the United States at IFAD by offering a strong replenishment pledge in 2020.

### Clear U.S. arrears to IDA.

The U.S. is the largest historical donor to IDA, but has also accumulated significant arrears to the institution, including in recent years. These unmet commitments weaken the influence and credibility of the U.S. and threaten IDA’s ability to maintain support for its borrowers. Addressing arrears provides resources that can be used immediately by IDA to shore up support for countries most at risk from the health and economic crises. Current U.S. arrears to IDA total approximately $337 million. Clearing arrears in this amount would be pooled with IDA resources and further leveraged to have a much larger impact in the world’s poorest countries.

**Legislative Action Needed:** Congress should appropriate an amount additional to the U.S. annual contribution to IDA. Any funding that exceeds the annual IDA appropriation would be applied to arrears.

### Grant exemptions for SEC registration and reporting requirements applied to IDA.

IDA began issuing bonds in 2018 after IDA donors agree to change the funding model in order to supplement donor contributions and access to capital markets. However, the regulatory relief afforded to every other multilateral development bank in which the U.S. is a member has not yet been provided to IDA. Granting these exemptions to IDA will save an estimated $600 million in borrowing costs over five years, which will allow the World Bank to provide more advantageous financial terms to the world’s poorest countries.

**Congressional Action Needed:** SEC Relief requires Congressional authorization. No additional appropriation would be needed.

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*This fact sheet is provided by the International Financial Institutions Working Group, a coalition of organizations committed to promoting effective US leadership in multilateral development institutions.*