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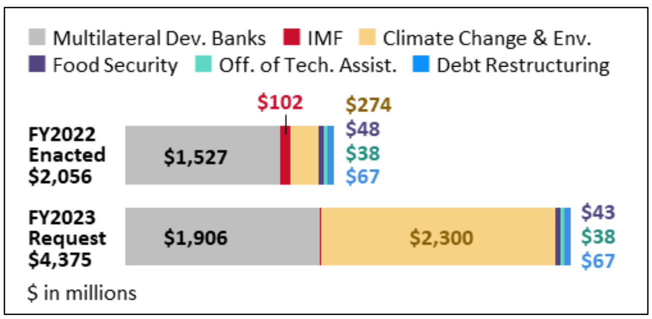
International Financial Institutions: FY2023 Budget Request

For FY2023, the Biden Administration is requesting $4.37 billion for the international financial institutions (IFIs). The IFIs include the International Monetary Fund (IMF), the multilateral development banks (MDBs), and associated multilateral trust funds focused on climate change and food security. The FY2023 request for the IFIs would be more than double the amount enacted in FY2022 ($2.06 billion, **Figure 1**), and accounts for about 6% of the total FY2023 State, Foreign Operations, and Related Programs budget request.

The budget request for the IFIs comes through 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 Senate Committee on Foreign Relations and the House Committee on Financial Services are responsible for managing MDB authorization legislation. The Foreign Operations Subcommittees of the House and Senate Committees on Appropriations manage the relevant appropriations legislation. During the past several decades, authorizations and appropriations for U.S. contributions to the IFIs have been included in the annual foreign operations appropriations or a larger omnibus appropriations act.

Figure 1. Treasury's International Programs Budget Request



Source: U.S. Treasury Department, *International Programs Congressional Justification for Appropriations*, FY2023.

Overview of the FY2023 Request

Two components of the request account for more than 95% of the FY2023 IFI budget request: $1.91 billion for the MDBs, which finance development projects in low- and middle-income countries, and $2.30 billion for multilateral climate change and environmental trust funds.

The Administration is also requesting funding to support low-income countries at the IMF ($20 million), debt restructuring for developing countries ($67 million), and multilateral food security initiatives ($43 million). The request also includes funding for the Treasury Department's Office of Technical Assistance ($38 million), which helps developing countries strengthen their capacity to manage public finance and safeguard their financial sectors.

Multilateral Development Banks

Of the $1.91 billion requested by the Administration for the MDBs, about 85% is for the **World Bank**. Most of these commitments are the annual installments of previous, multi-year pledges by the United States. The request includes funding for two lending facilities at the World Bank:

- $206.5 million for the **International Bank for Reconstruction and Development (IBRD)**, which provides financial assistance at market-rates (non-concessional financial assistance), and '
- $1.4 billion for the **International Development Association (IDA)**, which provides grants and low-cost loans (concessional financial assistance) to low-income countries.

For the regional multilateral development banks, the Administration is requesting

- $54.6 million for the **African Development Bank**, which provides non-concessional financial assistance;
- $171.3 million for the **African Development Fund**, the concessional lending facility of the African Development Bank; and
- $43.6 million for the **Asian Development Fund**, the concessional lending arm of the Asian Development Bank.

Capital Increase at the Inter-American Development Bank (IDB)?

The Administration did not include any appropriations or authorizations for a capital increase at the Inter-American Development Bank (IDB). Legislation was introduced late in the 116th Congress (S. 4997), and in the 117th Congress (S. 616; S. 1169) to authorize U.S. participation in an $80 billion capital increase for the IDB. The legislation outlines that the U.S. portion would be about $24 billion, mostly through callable capital (guarantees) extended to the IDB. In previous capital increases at MDBs, an agreement among member countries in principle has preceded congressional authorization for U.S. participation. There is currently no agreement among IDB members for a general capital increase, but in March 2022 the IDB Board of Governors signaled support for a more targeted capital increase of the IDB's private-sector arm (IDB Invest).

International Monetary Fund

The COVID-19 pandemic and Russia's war on Ukraine have created challenges for many economies, and the Administration is seeking $20 million for the IMF to provide additional support for developing countries. The funds would go to the IMF's Poverty Reduction and Growth Trust (PRGT), which provides concessional lending to low-income countries, and the IMF's Resilience and Sustainability Trust (RST), which provides long-term financing to low- and middle-income countries to address long-term challenges (such as climate change and pandemic preparedness). The $20 million for the IMF would cover the subsidy cost of and make loans of up to $21 billion from Treasury's Exchange Stabilization Fund (ESF, an emergency reserve fund of the Treasury Department). The precise breakdown between the two IMF trust funds is to be determined.

Debt Restructuring

The FY2023 request seeks $67 million for U.S. participation in the G-20 Debt Service Suspension Initiative (DSSI) and Common Framework on Debt Treatments (Common Framework) and the Paris Club, a group of governments (excluding China) that negotiate debt relief for developing countries. The G-20 established the DSSI in April 2020 in response to the COVID-19 pandemic by providing for the temporary suspension of debt payments until the end of 2020 for the world's poorest countries (those eligible for IDA assistance). Originally set to end on December 31, 2020, the DSSI was extended through December 2021. According to the World Bank, 48 out of 73 eligible countries participated in the initiative before it expired. From May 2020 to December 2021, the initiative suspended $12.9 billion in debt-service payments.

While DSSI provided temporary debt restructuring, the G-20 (including China) and the 22 members of the Paris Club, comprising 39 creditors, endorsed a new "Common Framework for Debt Treatments beyond the DSSI" in November 2020 to provide permanent debt forgiveness. Rather than the temporary suspension of debt payments allowed under the DSSI, the Common Framework is aimed at addressing unsustainable sovereign debt burdens by negotiating debt treatments that will reduce the net present value (NPV) of low-income countries official debt burdens. Countries are also expected to seek comparable treatment from private sector creditors. DSSI debt relief, by contrast, is NPV-neutral. Potential options under the Common Framework include extending the duration of sovereign debt and in extreme cases, debt write offs or cancellation.

The Treasury Department has not provided a detailed breakdown of how the $67 million would be allocated to DSSI and/or Common Framework initiatives, or which countries would likely be recipients of debt relief.

Climate Change Trust Funds

U.S. funding for multilateral climate change and environmental initiatives has varied over time, and the Administration is requesting $2.3 billion for FY2023, up from $274 million in FY2022. Specifically, the Administration is requesting

- $1.6 billion for the **Green Climate Fund**, which is established within the framework of the United Nations Framework Convention on Climate Change (UNFCCC) to assist developing countries in adaptation and mitigation practices to counter climate change (previously the funding request was split between the Treasury and State Departments; this consolidates the request under just the Treasury Department);
- $550 million for the **Clean Technology Fund (CTF)**, which provides concessional resources to be combined with MDB resources to support clean energy, climate adaptation, and sustainable land use;
- $150.2 million or the **Global Environment Facility**, which provides mostly grants to developing countries to address biodiversity, land degradation, chemical waste, and other environmental issues; and
- $15 million for the **Tropical Forest and Coral Reef Conservation Act**, which allows certain developing countries to redirect some debt payments owed to the United States to support their own environmental conservation efforts.

Potential Policy Questions for Congress

- The FY2023 budget request for the IFIs more than doubles the amount enacted in FY2022. Why is U.S. support of the IFIs a good use of U.S. taxpayer funds?
- How would requested FY2023 funds help developing countries respond to the health and economic effects of COVID-19? How are IFIs supporting manufacturing, delivery, and distribution of vaccines?
- What are the needs of LICs for debt relief? How should the United States prioritize requests for debt relief? To what extent are private investors and China participating constructively in debt negotiations?
- Under the Administration's budget request, U.S. unmet commitments to the MDBs would increase from $2.9 billion to $3.2 billion. Unmet commitments are the difference between the amount pledged by the United States and the amount provided (through appropriations) by the United States. How do unmet financial commitments to the IFIs impact U.S. leadership in the global economy? Should the United States seek to clear its unmet commitments and does the Administration have a plan to do so?
- How does the Administration evaluate the effectiveness of multilateral environmental funds and determine the appropriate level of U.S. commitments to these funds?
- Traditionally, the IMF has provided short-term financing during economic crises and the World Bank has provided longer-term financing for economic development. Is longer-term financing from the IMF duplicative of the World Bank's work?
- Funding for the Green Climate Fund had been split between the Treasury Department and the State Department; for FY2023 the Administration is proposing a consolidation of funding under the Treasury Department. What are the implications of such a shift? What is the role of the State and Treasury Departments for U.S. participation in the Fund?
- What would be the impact of a capital increase at the IDB, and should the United States support this?

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