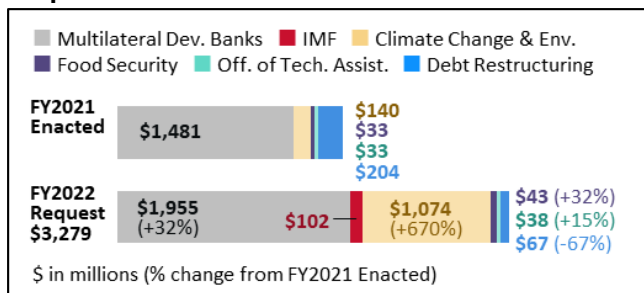


## International Financial Institutions: FY2022 Budget Request

For FY2022, the Biden Administration is requesting \$3.28 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 FY2022 request for the IFIs would be a 73% increase from the amount enacted in FY2021 (\$1.89 billion, **Figure 1**), and accounts for about 5% of the total FY2022 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, FY2022*.

### Overview of the FY2022 Request

More than half of the amount requested for the IFIs—\$1.95 billion—is for the MDBs, which finance development projects in middle- and low-income countries. The second largest portion of the request is \$1.1 billion for multilateral climate change and environmental trust funds, more than seven times the amount enacted in FY2021.

The Administration has also requested funding to support low-income countries at the IMF (\$102 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 \$1.95 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 (nonconcessional 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 nonconcessional financial assistance;
- \$211.3 million for the **African Development Fund**, the concessional lending facility of the African Development Bank; and
- \$53.3 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 116<sup>th</sup> Congress (S. 4997), and again in the 117<sup>th</sup> 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 capital increase, although in March 2021, member countries approved a resolution authorizing analytic work required to consider a potential capital increase.

A portion of the MDB funds requested for FY2022—\$476.3 million—is towards previous, unmet U.S. commitments to the MDBs, primarily IDA. Unmet commitments are the difference between the amounts pledged by the United States to the MDBs and the amounts actually provided to the MDBs from (through appropriations) the United States. The Treasury Department argues that paying down these unmet commitments will

provide additional resources that can provide immediate support to low-income countries, while also demonstrating U.S. commitment to restoring its leadership in the multilateral system. However, at the same time, unmet U.S. commitments to IDA's Multilateral Debt Relief Initiative (MDRI) are set to increase by about \$300 million under the Administration's FY2022 request. Collectively, U.S. unmet commitments to MDBs totaled \$2.7 billion in FY2021, and under the Administration's budget request for FY2022, would on net fall to \$2.5 billion.

### International Monetary Fund

The Coronavirus Disease 2019 (COVID-19) created enormous health and economic pressures for low-income countries (LICs), and IMF lending to LICs increased dramatically in 2020—an eightfold increase from average lending levels in 2017-2019. In response to the continuing financial needs of LICs, the IMF is seeking to increase funding for its concessional lending facility for LICs, the Poverty Reduction and Growth Trust Fund (PRGT). As part of this multilateral effort, the FY2022 budget requests a total of \$102 million to enable a U.S. contribution to the PRGT or another (unspecified) IMF facility focused on LICs. It has been over a decade since the United States has provided new funding for the PRGT. The requested funds would be used for grants to the LIC-facility as well as to cover the subsidy cost of loans from the Treasury Department's Exchange Stabilization Fund (ESF, an emergency reserve fund of the Treasury Department) to the IMF. The precise breakdown between grants and loan subsidy is to be determined.

### Debt Restructuring

The FY2022 request seeks \$52 million for U.S. participation in the G-20 Debt Service Suspension Initiative (DSSI) and Common Framework on Debt Treatments (Common Framework). 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 has been extended through December 2021. According to the World Bank, the DSSI has delivered more than \$5 billion in debt relief to more than 40 of the 73 eligible countries.

While DSSI is providing 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 \$52 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. support for multilateral climate change and environmental initiatives has varied over time, and the Administration is proposing a 670% increase in U.S. funding for FY2022, from \$139.57 million in FY2021 to \$1.07 billion for FY2022. Specifically, the Administration is requesting

- \$149.3 million for the **Global Environment Facility**, the largest multilateral trust fund focused on global environmental issues;
- \$625 million 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 (the State Department is also requesting \$625 million for the GCF for a total request of \$1.25 billion);
- \$300 million toward the **Clean Technology Fund**, which provides financial resources to invest in clean technology projects in developing countries; 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.

### Policy Questions for Congress

Treasury Secretary Janet Yellen stresses that the FY2022 budget request for the IFIs seeks to restore U.S. leadership in the multilateral system and tackle a range of challenges, particularly the pandemic and climate change. Questions Members might consider about the budget request include

- With a budget request nearly 75% more than enacted the previous year, why is U.S. support of the IFIs a good use of U.S. taxpayer funds?
- How would requested FY2022 funds help developing countries respond to the health and economic effects of the pandemic? How are IFIs supporting manufacturing, delivery, and distribution of COVID-19 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?
- How do unmet financial commitments to the IFIs shape 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 environmental trust funds and determine the appropriate level of U.S. commitments to these funds?
- What would be the impact of a capital increase at the IDB, and should the United States support this?

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