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February 2, 2009

Congressional Research Service

Report RS20413

*IMF AND WORLD BANK: U.S. CONTRIBUTIONS AND
AGENCY BUDGETS*

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Updated December 9, 1999

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CRS Report for Congress

Received through the CRS Web

IMF and World Bank: U.S. Contributions and Agency Budgets

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Summary

Along with other member countries, the United States makes contributions — sometimes annually, sometimes every few years — to help support the operational programs of the IMF and World Bank. None of these contributions is used to finance the international agencies' administrative expenses. Their administrative budgets are financed with income derived from operations or from investments. This paper shows how much the United States has contributed to these international agencies in recent years. It also shows how much the international agencies budget (and the source of those funds) for their administrative expenses and their operational budgets. This report will be updated periodically.

U.S. Contributions to the IMF and World Bank

The United States does not contribute money to the IMF every year. Likewise, it makes annual contributions to only some World Bank affiliates. For the IMF and most World Bank agencies, member countries make contributions or subscriptions only when they believe the agency's capital base needs expansion.

International Monetary Fund. In fiscal year 1999, Congress appropriated 10,622.5 million Special Drawing Rights (SDRs¹) — approximately \$14.5 billion — to the IMF's general resources. It also subscribed an additional SDR 2.462 billion — approximately \$3.5 billion — to a special IMF lending agreement called the New Arrangement to Borrow (NAB). Nothing was proposed or appropriated for fiscal 2000. Since the IMF's inception, the United States has subscribed SDR 37.149 billion — \$52.306 billion — to the IMF's general resources and SDR 10.962 billion — \$15.434 billion — to the New

¹Special Drawing Rights are the IMF unit of account. An SDR is notionally a basket of currency. One hundred SDRs is composed of \$58.21 U.S. dollars, £10.50 British pound sterling, ¥2,720.00 Japanese yen, and E35.19 euros in German and French currency. Because of the interaction pattern among these currencies, the SDR is more stable in value (thus a better unit for keeping IMF accounts) than is any single national currency.

Arrangements to Borrow and its predecessor, the General Arrangements to Borrow (GAB). The United States has the largest vote (17.53%) in the IMF because of its SDR 37.149 billion quota.

World Bank. The United States made no contribution (none being requested by the Administration) to the *International Bank for Reconstruction and Development* (IBRD) in fiscal 1999 and fiscal 2000. Since its inception, the United States has subscribed \$31.96 billion to IBRD capital stock, giving it the largest single vote (16.52%) of any member country. Of that amount, \$1.998 billion has been paid in; the rest is subject to call if the IBRD needs money to pay off its bondholders upon its liquidation.

For the same reason, it made no contribution those years to the *International Finance Corporation* (IFC), the World Bank's private sector finance affiliate. Since its inception in 1956, the United States has subscribed \$569.4 million (all paid-in) to the IFC. It has the largest single vote (23.8%), a total almost as great as the combined vote of the four countries with the next largest votes.

Congress made no appropriation in fiscal 1999 for the *Multilateral Investment Guarantee Agency* (MIGA), the World Bank affiliate that insures or guarantees foreign private investors against non-commercial risk from their investments in developing countries. The Administration requested \$10 million for MIGA in fiscal 2000. The conference report for the fiscal 2000 Foreign Operations Appropriations Bill would provide \$4 million for MIGA. Since MIGA was established in 1989, the United States has subscribed \$222 million, enough to earn it the largest vote (15.92%) in the body. This is almost as much as the combined total vote for the next four largest member countries.

The *International Development Association* (IDA) is the World Bank affiliate that receives a contribution from the United States each year. Other World Bank agencies finance their operations with money borrowed on private capital markets or by leveraging their capital base. IDA makes loans on highly concessional terms to the world's poorest countries. It uses money contributed by the world's most prosperous countries to fund its loan program. Every three years, the IDA donor countries meet to determine how large the next replenishment of IDA's resources should be and what share of the total each donor should contribute. In fiscal 1999, the Administration sought and Congress approved an appropriation of \$800 million to fund the U.S. annual share of the most recent IDA replenishment. For fiscal 2000, the Administration requested \$803.43 million for IDA. Congress appropriated \$625 million.

IMF and World Bank Administrative Budgets

Calculating the budgets of the IMF and World Bank is a more complicated issue than it might seem on its face. The international financial institutions (IFIs) have two kinds of budgets, each financed separately. The first is their administrative budget — what they spend for staff, travel, and other expenses. The second is their operational “budget” — what they allocate annually for loans and other forms of assistance. Member countries do not provide any direct support for the IFIs' administrative budgets. Their contributions go to support the IFIs' operational programs.

IMF Administrative Budget. During its fiscal year ending April 30, 1999, the IMF budgeted SDR 392.1 million (\$520.62 million) for administrative expenses. These were offset in part by \$40.5 million in reimbursements from governments or other organizations. It also disbursed \$43.9 million for capital improvements on its facilities.

The IMF finances its administrative expenses with money earned through its lending operations. It does not use money from its quota resources or other funds contributed by governments to defray its administrative costs. The IMF lends money to its borrowers at a higher interest rate than the rate it pays for the money it borrows to finance these loans. It borrows mainly from the quota sources subscribed by its member countries. The IMF also sometimes borrows supplementary funds elsewhere. To date, it has tapped only official sources (governments or central banks), though it has authority to borrow as well from private sources.

The IMF Executive Board determines each year the interest rate it will charge (rate of charge) its borrowers, calculated in terms of the interest rate paid on SDR. For example, the Board might set the rate of charge at 105% of the SDR rate. The IMF pays countries interest (rate of remuneration)—generally at the SDR interest rate—for its use of funds drawn from the lines of credit they established when they subscribed their IMF quotas. During its 1999 fiscal year, the IMF paid interest to the United States and the other countries whose currencies it used to fund its operations at an average 3.82%. It charged most borrowers an average 4.09% for loans financed with quota resources. For loans financed from the new Supplemental Reserve Facility, however, the IMF charges its borrowers the basic rate plus a surcharge ranging from 300 to 500 basis points (i.e., 0.3% to 0.5%).

During its 1999 fiscal year, the IMF received SDR 2.625 billion (\$3.696 billion) in operational income and it spent SDR 2.104 billion (\$2.962 billion) in remuneration or interest costs. From its net operational income of SDR 827.67 million, it covered all the IMF's administrative expenses and had SDR 435.6 million left over. The Executive Board decided to transfer that amount to IMF reserves.

World Bank Administrative Budget. Each affiliate of the World Bank has its own administrative budget and its own source of funds. No money contributed by governments is used to pay for World Bank administrative expenses.

The *IBRD*'s administrative expenses totaled \$849 million during its fiscal 1999. It financed its administrative costs entirely through operational and investment income. Its income during its fiscal 1999 amounted to \$9.642 billion² and its total expenses—including administrative expenses—amounted to \$7.995 billion.³ From its net income of \$1.647 billion, the IBRD contributed \$129 million to charitable activities (such as the campaign in Africa against river blindness). From the remaining \$1.518 billion, the IBRD Executive Board gave \$352 million to IDA, \$90 million to the trust fund for Gaza and the

²It received \$7.649 billion in income from loans (interest and fees) and \$1.716 billion in income from its investment portfolio. It also received another \$256 million in income from money invested in its pension plans and \$18 million from other sources.

³This included \$6.882 billion in borrowing expenses, \$246 million for additions to the loan loss reserve, \$849 million in administrative expenses, and \$18 million in other expenses.

West Bank, and \$100 million for the trust fund for Heavily Indebted Poor Countries (HIPC). The Board put the remaining \$976 million into the IBRD's retained earnings.

IDA has no staff of its own. It reimburses IBRD for the cost of personnel and administrative services devoted to IDA projects. In FY1999, IBRD charged a \$518 management fee to IDA for these services. However, it also credited IDA with \$150 million as its share of the income earned by the World Bank pension plan. Consequently, IDA's 1999 net administrative costs totaled \$368 million. This was less than the \$409 million in net cash generated during fiscal 1999 by IDA operational activities. No money contributed by IDA donor countries was used to cover IDA administrative expenses.

The *IFC* has the same president and Executive Board as the IBRD and IDA but it has its own operational staff. Its administrative expenses during its fiscal 1999 totaled \$250.02 million. The IFC earned a net \$468.76 million in fiscal 1999 from interest charged for loans and \$265.2 million from income on equity investments. It also had \$101.96 million in income from other sources (mainly fees charged to customers and income from its pension plan) and it set aside \$332.94 million as provision against future losses on its loans and investments.⁴ The IFC also contributed \$3.4 million to special programs. After all costs were accounted for, the IFC's net operating income for the year was \$249.26 million. This was retained in its reserves.

MIGA also has its own operational staff. In fiscal 1999, MIGA earned \$24.98 million from premiums and fees, \$20.43 million from income on its investments, and \$3.74 million from its pension fund investments. Its administrative costs totaled \$15.24 million and it set aside \$23.27 million against future claims. After meeting all its costs, MIGA had a net income of \$10.38 million for the year, which it held as retained earnings. MIGA received \$6.07 million in capital subscriptions in 1999 from member countries (a figure subsumed above in its financing costs.) The amount listed as retained earnings for the year was greater than the amount of the new capital subscriptions.

IMF and World Bank Operational "Budgets"

The IMF and World Bank do not have annual budgets from which they finance their operations. Rather, they have financial resources (contributed or supported by their member countries) that they use to fund their programs as the situation seems to require. Their operations are demand driven. Countries apply for assistance, the IMF and World Bank staff evaluate their requests, and the Bank and Fund Executive Boards decide which applications should be approved. At the close of their fiscal year, the IMF and World Bank total up the amount they have committed and disbursed for projects. This is, in effect, their operational "budget".⁵ Money in the exchequer not used in one fiscal year may be carried over into the next without restrictions in order to finance future operations.

⁴The IFC received \$13.17 million during the year in equity subscriptions from member countries, none of it from the United States. This amount is netted into the cost of IFC borrowing to support its loan and investment operations.

⁵The IMF uses the term "operational budget" not (as here) in reference to the total volume of lending for the year but to a decision by its Executive Board specifying the amounts of SDRs and selected member currencies the IMF can use to facilitate new loans and loan repayments during the next 3-month period.

International Monetary Fund. Because it generally makes loans when countries in extreme circumstances come to it for balance of payments financing, the IMF does not have an annual budget limiting the amount it can lend during its fiscal year. The IMF has a certain amount of money available to it through the lines of credit its member countries have accorded it through their quota subscriptions. As of September 1999, IMF member countries had subscribed quotas totaling SDR 215 billion (about \$298 billion.) Not all of this is usable money, however. Countries do not borrow their own currency or the money of other countries with weak currencies when they approach the IMF for emergency assistance.

The IMF reported in September 1999 that its usable currencies then totaled SDR 93.3 billion (\$129 billion), while its outstanding loan commitments were SDR 16.4 billion (\$23 billion) and the minimum working balances on its accounts were SDR 14.2 billion (\$20 billion). Thus, its net uncommitted usable resources totaled about SDR 62.7 billion (\$87 billion). The IMF must be ready at any time to lend countries the full value of their reserve position. In September 1999, it had a potential liability of SDR 57.3 billion (\$80 billion) from this source. It is unlikely, of course, that all countries would draw simultaneously the full value of their reserve. Still, in September 1999, the IMF could have lent only an additional SDR 5.4 billion (\$7 billion) before it would be in a position where it could not meet new applications for assistance without utilizing resources that are traditionally reserved to cover countries' reserve asset positions. The IMF has been in that position before. In April 1999, at the close of its fiscal 1999, it would have been able to meet only 89% of the demands of its members if they tried to draw their quota reserve simultaneously. In April 1998, it had only enough uncommitted usable resources to meet 45% of such demands. The IMF membership decided in 1998 to increase the Fund's resources in large part because its liquidity ratio had become so small.

The IMF can also draw on a special SDR 34 billion (\$37 billion) line of credit provided by the major advanced industrial countries (the GAB/NAB), provided they give their consent. The GAB and NAB are intended primarily to finance loans to countries that have subscribed to the GAB or NAB. In June 1998, however, GAB member countries authorized the IMF to borrow GAB funds to finance a loan to Russia, the first such loan to a non-contributor to the GAB or NAB.

World Bank. World Bank officials have a multi-year plan which shows how much the regional vice presidents may plan to commit for projects in their region during the next few years. This helps the staff decide how many projects they should consider and it tells the Treasurer's office how much money it needs to raise. The schedule is subject to change, however, if the priority among regions should change, if new rush projects are added, or if the projects currently under review take longer to prepare than anticipated.

Among the World Bank agencies, the **IBRD** has the most flexibility in its finances. The IBRD finances its loan program with money borrowed at commercial rates in world capital markets. It charges its borrowers an interest rate that is one-half percent higher than the average rate it pays to borrow funds. Member countries subscribe to IBRD capital in two forms. Three percent of their subscription is paid-in capital. The rest is subscribed as callable capital, which is payable upon demand. There has never been a call on callable capital. The Bank would make such a call if it were effectively bankrupt and it needed money to pay off its bondholders. With the backing of its callable capital, the

IBRD can borrow funds commercially at advantageous rates. Its Articles of Agreement prohibit the IBRD from lending out more than the total value of its capital stock plus its retained earnings. At the end of fiscal 1999, the IBRD's capital stock was worth \$188.22 billion and the value of its outstanding loans (including undisbursed commitments) was \$117.23 billion. The IBRD's retained earnings totaled \$17.71 billion at that time.

IDA funds its loan program with money contributed directly by its member country governments (plus \$100 million or so transferred annually to IDA from the IBRD's net income.) It cannot make loan commitments or disbursements in excess of the amount it has on hand. In the Twelfth IDA Replenishment Agreement (IDA-12) approved by the donors in 1998, countries agreed to contribute \$11.6 billion in new money to IDA during the period July 1999 to June 2002. IDA is also scheduled to receive about \$9.4 billion in loan repayments during that period. If the World Bank chooses to lend out an equal amount of these funds each year, it could make new IDA loan commitments totaling approximately \$7 billion annually during these three years. The annual flow of contributions and loan repayments varies, however, as does the volume of IDA lending. During its fiscal year 1999, IDA made new loan commitments totaling \$6.81 billion (down from \$7.81 billion the previous year.)⁶

The *IFC* funds its operations both with money contributed by its member countries and with money borrowed in world capital markets. At the end of its fiscal 1999, its market borrowing totaled \$12.54 billion. It had also borrowed another \$350 million from the IBRD. The value of the IFC's capital stock was \$2.45 billion while the total value of its outstanding commitments for loans and equity investments (some not yet disbursed) was \$12.9 billion at the end of fiscal 1999. New commitments in 1999 totaled \$2.8 billion. There is no limit, other than that imposed by prudence and the willingness of the market to provide funds, on the amount the IFC can borrow to finance its operations.

MIGA's member countries increased the value of its capital stock to \$1.95 billion during fiscal 1999. In the initial issuance of IFC capital stock, countries had to pay-in 20% of the value of their subscription (10% in cash and 10% in non-negotiable non-interest bearing promissory notes); the rest was callable capital. In the new capital increase, 17.65% is payable in cash and the remainder is callable capital. *MIGA* writes insurance coverage and guarantees; it does not make loans. *MIGA* had set aside \$340 million as of June 1999 as provision against future insurance claims. At present, *MIGA* may issue coverage for up to 3.5 times the value of its capital stock. The *MIGA* charter says the "gearing ratio" may be increased ultimately to 5 times capital. There is talk currently of raising it to 4 times capital stock. In 1999, *MIGA* issued \$1.3 billion in new insurance and guarantee coverage for private investments in 29 countries. The total issued coverage in 1999 was \$5.5 billion.

⁶In fiscal 1999, IDA disbursed a net \$5.094 billion to pay for IDA project expenses. It also made grants totaling \$149 million for development activities. It received \$4.071 billion in new contributions from donor countries and it used \$697 million in earlier contributions (which had been temporarily invested) to finance its loan operations. As noted earlier, IDA received a net cash inflow of \$409 million from its operations. It also received a net \$114 million (an accounting gain only, as IDA does not trade currencies) as a consequence of currency fluctuations.