

**LAPSE OF
TIME**

EBD/21/7

March 8, 2021

To: Members of the Executive Board

From: The Secretary

Subject: **U.S. Government Accountability Office—Request for Cooperation on the Review of the IDA's Financial Model**

Board Action: Executive Directors' **consideration** on a lapse of time basis

Comments should be communicated to the Secretary by: **Monday, March 15, 2021
12:00 (noon)**

Additional Information: This notification is being circulated to Executive Directors to invite their comments in connection with the US GAO's request for cooperation.

The attached memorandum from the Managing Director notifies Executive Directors of the U.S. Government Accountability Office's (GAO) review of the IDA's Financial Model.

With the Managing Director's approval, the review will be carried out in accordance with the procedures established in Decision No. 12424-(01/13). The published report will be circulated to the Executive Board for information.

Questions: Ms. Ramakrishnan, SPR (ext. 35413)
Ms. Velculescu, SPR (ext. 37728)
Mr. Wu, SPR (ext. 35334)



OFFICE MEMORANDUM

To: The Members of the Executive Board

March 5, 2021

From: The Managing Director

Subject: **U.S. Government Accountability Office— Request for Cooperation on the Review of the IDA's Financial Model**

As noted in the attached memorandum from Ms. Shortino, the U.S. Government Accountability Office (GAO) is conducting a review of the International Development Association's (IDA) financial model. This review will examine information that the IDA uses to inform its financing and lending decisions, including related to borrower countries' debt sustainability, which is based on the joint Bank-Fund Low-Income Country Debt Sustainability Framework (LIC DSA). The U.S. GAO has asked to engage with Fund staff. The terms of reference (TOR) are attached to Ms. Shortino's memorandum.

Ms. Shortino's memorandum and related TORs indicate that the engagement will follow the principles set out in the Executive Board Decision on Procedures for Cooperation with Investigations on Fund Activities by Auditing Institution of Members (Decision No. 12424-01/13), along with the Operational Guidelines for Cooperation with Fund Activities. The procedures limit the types of documents and information that can be provided and provide certain safeguards

The U.S. GAO will provide management and staff opportunities to review the draft report to ascertain that no confidential information is disclosed, and that factual information is correct. Management also has an option to include in full the written official comments in the published report. Once the report is published, it will be circulated promptly to the Executive Board, together with an assessment of the staff resources used by the Fund.

According to the procedure on cooperation, Executive Directors are to be notified of all requests at least two weeks before the commencement of any such cooperation with the relevant agency and should have an opportunity to comment on all aspects of the notification. My intention is to approve the U.S. GAO's request for cooperation, taking into account any comments that Executive Directors may provide.

Attachments



OFFICE MEMORANDUM

To: Ms. Pazarbasioglu

February 23, 2021

From: Ms. Shortino /s

Subject: **Notification of U.S. Government Accountability Office Review: IDA's Financial Model**

The United States Government Accountability Office (GAO) is conducting an engagement on the International Development Association's (IDA) Financial Model, particularly the IDA's decision to start raising funds from capital markets. The review will also examine information that IDA uses to inform its financing and lending decisions, including information related to borrower countries' debt sustainability.

The GAO review is being carried out at the request of Representative Maxine Waters, Chair of the House Committee on Financial Services, and Senator Patrick Leahy, Chair of the Senate Committee on Appropriations. The GAO seeks to interview IMF staff to understand their role in jointly developing the Debt Sustainability Framework and country Debt Sustainability Analyses (DSA) with the World Bank. In conjunction with this review, an inquiry has been made to my office for assistance in identifying and notifying appropriate IMF officials and arranging meetings deemed necessary to carry out this review.

In line with the Executive Board Decision on Procedures for Cooperation with Investigations on Fund Activities by Auditing Agencies of Members (Decision 12424-(01/13), attached are the Terms of Reference for the inquiry, as provided by the GAO. In this context, the GAO has confirmed to me that:

- The GAO seeks to obtain documents which are publicly available, or not publicly available but provided to the Executive Board. Any document provided by Fund management and staff, and designated by the IMF as "confidential" or any other confidential information, including views expressed by Fund management and staff in discussing confidential documents, shall not be disclosed to any persons outside the GAO unless the express authorization of the Managing Director is granted. GAO policy and applicable statutory and regulatory requirements obligate the GAO to give the information the same level of confidentiality as the IMF. The GAO agrees that the designation of documents or information as "confidential" shall be made by the Fund and that the GAO will not dispute such designation.
- In cases where the GAO receives any document provided by Fund management and staff and designated by the IMF as "confidential," or where Fund management or staff provided other confidential information, including views expressed in discussing confidential documents, Fund management and staff will have two opportunities to review

relevant sections of the draft GAO report, the first of which occurs before the report is circulated outside the GAO. At the first stage, Fund management and staff will check relevant sections of the report for confidential information. At this stage, Fund management and staff can also identify factual corrections. The GAO will delete any confidential information and undertake to correct factual mistakes before the draft report is circulation for official comments.

- Fund management and staff will have a second opportunity to review the draft GAO report when it is circulated for official comment. The GAO will reflect the views of Fund management and staff by, inter alia, including in full the final written official comments of the IMF in the published version of the report.

We understand that if Fund management concludes that the views of the Fund have not been adequately reflected in the published report, Fund management may decide to communicate those views directly to the recipients of the report.

If you have any questions or concerns during the course of this review, please feel free to contact me.

Attachment: GAO Terms of Reference

cc: Managing Director
Deputy Managing Directors
Heads of Departments: LEG, SEC

Terms of Reference: GAO Study on the International Development Association's (IDA) Financial Model

This document outlines the GAO's current approach. Specifics are subject to change in order to meet the needs of congressional requesters and address other issues that may arise. Although we do not expect significant changes, we understand that if alterations are required, then the IMF might decide to reevaluate the Terms of Reference.

Congressional Requesters

GAO is beginning this work in response to a request made by Representative Maxine Waters, Chair of the House Committee on Financial Services, and Senator Patrick Leahy, Chair of the Senate Committee on Appropriations.

Research Questions

- (1) What is the current and projected composition of IDA's financing sources?
- (2) What processes does IDA use to estimate and assess the impact of raising funds from capital markets on its financial stability and lending capacity?
- (3) What types of information does IDA have on borrower countries' debt sustainability and how does IDA use this information to determine its financing needs and lending capacity?
- (4) What measures does the Department of Treasury use to assess IDA's processes for maintaining financial stability and managing risks?

Scope

This review will focus on the IDA and its financial model, particularly IDA's decision to start raising funds from capital markets. The review will also examine information that IDA uses to inform its financing and lending decisions, including information on borrower countries' debt sustainability. It will consider efforts undertaken by the U.S. Department of Treasury to assess IDA's financial stability.

Methodology/Data Gathering

GAO is reviewing publicly available information from IDA and the IMF and, where appropriate, information that may not be publicly available. GAO is also interviewing officials from IDA and the U.S. Department of Treasury.

GAO is interested in speaking with the IMF due to its role in jointly developing the Debt Sustainability Framework and country Debt Sustainability Analyses (DSA) with the World Bank. GAO would like to clarify and supplement our understanding of information presented in these documents.

GAO has reviewed the following IMF data sources and publications in preparation for the discussions with IMF staff:

- 2009 Debt Sustainability Framework for LICs and 2017 update
- LIC DSF Excel templates
- IMF EdX Course on DSAs
- 2012 Financial Surveillance Strategy

- Guidance on LIC DSF and proposed reforms
- IMF Surveillance press releases
- LIC DSAs

Support Requested from IMF Staff

GAO is interested in meeting with IMF staff to discuss the following topics:

- Data collection methods for information in the country DSAs.
- Data reliability efforts for information reported in the country DSAs.
- Challenges related to transparency of debt information when developing country DSAs or assessing debt sustainability in general.
- Views from IMF staff on the debt sustainability of low-income countries.
- Views from IMF staff on the effects of global and national efforts to address debt sustainability of low-income countries.

Expected duration of the investigation

Work on this project began in Winter 2020 and is expected to be completed by Spring 2022.

Meetings with IMF staff would take place starting at the end of February or beginning of March 2021. A draft report will be sent to the IMF for official comment most likely in Winter 2021 or at the beginning of 2022.

Final Product

A written report will be prepared and provided to the House Committee on Financial Services and Senate Committee on Appropriations. The final report is expected to be publicly available.