



KRISTALINA GEORGIEVA
Managing Director

May 27, 2020

United States Representative Ilhan Omar
United States House of Representatives
Washington, D.C.

United States Senator Bernard Sanders
The United States Senate
Washington, D.C.

Dear Representative Omar, Senator Sanders, and Members of Parliaments:

[Thank you for your letter](#) of May 13, 2020 to World Bank President Malpass and me, in which you asked us to take additional steps to provide debt relief and financial assistance for low-income countries hit by the pandemic, including the cancellation of debts owed to international financial institutions (IFIs). While I respond on behalf of the IMF and President Malpass will respond on behalf of the World Bank to ensure we address both the points applicable to the two organizations and those specific to our individual mandates, let me stress that we work very closely with the World Bank, and that President Malpass and I have thoroughly discussed the issues outlined in your letter.

I am encouraged by your support for the steps already taken at the IMF, which include ramping up our own financing on concessional terms and, along with the World Bank, calling for the temporary suspension of debt service to official bilateral creditors for IDA countries—a call heeded by the G20 on April 15—and providing initial debt relief to 27 of our poorest and most vulnerable members in the form of grants that pay for debt service owed to the IMF. I also fully agree with you that we will need to go further, both with respect to financial assistance on concessional terms and additional debt relief. For the poorest countries, where the IMF has already provided debt relief and is seeking to do more, our aims are fully aligned with yours. Successfully achieving debt relief for the world's poorest countries will require, as it has in the past, support from a diverse and broad coalition of legislators which span the political spectrum, so I applaud the steps you have taken to begin building such a broad coalition.

At the same time, President Malpass and I share the view that the wholesale cancellation of international financial institution claims on International Development Association (IDA) countries would not offer the best avenue to achieve the objectives we all subscribe to. I would like to highlight two reasons.

First, the 75 IDA countries are a diverse group. They include impoverished nations (as you put it), geographically remote small island states, but also two dozen economies that, while still

eligible for IDA financing terms, are rapidly developing. For this latter group of countries, attaining creditworthiness—the ability and willingness to repay one’s debts—constitutes a hard-fought developmental success. These countries are not asking for debt forgiveness. They are seeking a level playing field, in the form of stable access to finance on affordable terms, like the advanced countries.

Second, as you are aware, the IMF and World Bank’s charters preclude the institutions from simply canceling their claims or writing off debt. What the IMF and the World Bank can do, however, is mobilize financial contributions from donors (advanced countries) for the repayment of IMF and World Bank claims on IDA countries. We do this through trust funds such as the IMF’s Catastrophe Containment and Relief Trust (CCRT). Although the IMF has been fortunate to receive substantial support from our members for the replenishment of existing funds (raising US\$472 million for the CCRT since end-March for example), we still need to complete the work of financing even the limited debt relief that we at the IMF hope to provide over the next few years. Raising these funds, as well as replenishing the funds that we need for concessional lending, will be a major challenge, in which your support as legislators is greatly appreciated.^[1]

As a result, the IMF’s strategy to support IDA countries during the pandemic focuses on two objectives:

- First, to ensure that IDA countries have access to enough external financing on affordable terms to fight the health and economic consequences of COVID-19. We do this through our own lending, and by supporting initiatives such as the G20 debt service suspension. We have adjusted IMF lending policies to provide emergency financing faster and in greater volumes than ever before. We have disbursed emergency loans for 59 countries since mid-March and expect to disburse to about 20 additional countries within the next four weeks.
- Second, to support IDA countries in the fight for debt relief on an *as-needed* basis. This differs from the debt cancellation that you have proposed in two dimensions: It would be focused on countries whose debts are unsustainable, rather than the entire IDA group; and it would involve debt relief by official bilateral creditors and, importantly, the private sector, enabling IFIs to continue their vital role, consistent with their respective mandates, as providers of both balance of payments support and stable, low-cost developmental finance. The involvement of the private sector in such debt restructurings makes for fairer burdensharing than the debt cancellation that you propose, which would fall squarely on the shoulders of taxpayers. Private sector participation—and the fact that debt relief would focus on countries that are unable to repay—is likely to be essential to unlock support for deeper debt relief by the advanced countries.

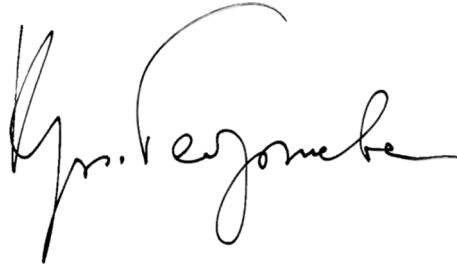
The IMF is also exploring an additional form of financial support, which you mention in your letter, namely a Special Drawing Rights (SDR) allocation or transfers of existing SDRs. Many member countries have inquired whether the IMF will consider an SDR allocation, as was done in 2009 during

^[1] It should also be noted that successive US Administrations have asked the US Congress to complete commitments made in a previous round of multilateral debt relief, but Congress has yet to appropriate about \$1.5 billion in arrears stemming from this 2005 initiative. (See U.S. Treasury, International Programs Justification for Appropriations for FY2021 (MDRI entry in table on p. 5), available at: <https://home.treasury.gov/system/files/266/FY-2021-Treasury-150s-CBJ.pdf>)

the Global Financial Crisis. However, the IMF membership has not coalesced around the initial proposal for a new general allocation of SDRs (an 85 percent majority of the total voting power is required). As a result, we are currently exploring options to better use the approximately \$250 billion of existing SDRs. This could involve wealthier countries donating or lending their SDRs to low-income countries, and includes using these SDRs to boost the Loan Accounts of the Poverty Reduction and Growth Trust to enhance our concessional lending capacity for low-income members.

My colleagues and I at the Fund are working diligently to do our part so that our most vulnerable members have the room to respond to the health and economic needs of their people—to save lives and livelihoods—without worrying about falling off the debt cliff. Just as the global financial crisis brought together both official and private creditors to find a path out of a dramatic crisis, we are confident we will be able to do it this time around as well.

Sincerely yours,

A handwritten signature in black ink, appearing to read "Ms. Lagarde". The signature is fluid and cursive, with a large, sweeping initial "L" and "A".