Additional Information Sharing Could Enhance U.S. Treasury Oversight of Key Risks

What GAO Found

Since 2018, the World Bank Group’s International Development Association (IDA), which provides financial assistance to low-income countries, has diversified its funding sources by leveraging its equity to borrow from capital markets. As of fiscal year 2021, IDA had borrowed about $21 billion from capital markets. IDA primarily allocates its funds for grants and loans on concessional terms (below market rates). While market borrowing allows IDA to increase its financing, it represents a change in its operations and funding approach.

Market borrowing has not affected IDA’s process for assessing financing needs of countries. However, IDA revised its financial and risk management framework to reflect increased financial risks due to market borrowing. IDA also enhanced its analysis of the risk of borrowers defaulting on their IDA loans.

IDA’s largest financial risk is the potential for borrower countries to default on loans from IDA. While defaults to IDA have historically been low, there are external factors that could affect borrower repayment to IDA, such as how much debt those borrowers owe to other creditors and the legal terms of that debt. To measure this risk and understand how much IDA can safely borrow from the markets, IDA models the maximum potential loan losses from borrower countries defaulting that it could face over 3 years.

The Department of Treasury conducts oversight of IDA through the U.S. Executive Director, an IDA Board member. IDA has shared some information on its loan loss model, such as certain model inputs, with its Board. However, the Board does not have important information, such as the model’s key assumptions, that would enhance its oversight of IDA’s risk management. Recommended practices for strong risk management include providing sufficient information to stakeholders. In addition, Treasury has not requested information on how IDA accounts for incomplete debt data, such as China’s loans to low-income countries, in its risk assessments. This information would support the U.S. and IDA Board members in assessing the quality of IDA’s risk management.