

**IMPLEMENTATION OF
CERTAIN LEGISLATIVE PROVISIONS
RELATING TO THE
INTERNATIONAL MONETARY FUND**



A Report to Congress

in accordance with

Section 1705(a) of the International Financial Institutions Act

and

Section 605(d) of the
Foreign Operations, Export Financing, and Related Programs
Appropriations Act, 1999

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Introduction

This report provides a consolidated response to two legislative provisions that require Treasury report to Congress on reform efforts and standby arrangements undertaken by the International Monetary Fund (IMF or Fund).

IMF Policies Reform Report: Section 1705(a) of the International Financial Institutions Act (IFI Act), 22 U.S.C. § 262r-4(a), requires the Secretary of the Treasury to submit a report on the progress made by (a) the U.S. Executive Director (USED) in influencing the IMF to adopt the policies and reforms described in section 1503 of the IFI Act, 22 U.S.C. § 262o-2(a), and (b) the IMF in implementing the policies set forth in section 801(c)(1)(B) of the Foreign Operations, Export Financing, and Related Programs Appropriations Act, 2001, P.L. 106-429.

Treasury and the Office of the U.S. Executive Director (OUSED) at the IMF consistently endeavor to build support in the IMF's Executive Board and management for these policies, including through meetings with IMF staff and other Board members on country programs and IMF policies, formal statements by the USED in the IMF Board, and USED votes in the Board. Treasury's overarching objective is to support strengthened implementation of IMF country programs and sound policy decisions within the Fund. Also, Treasury's Office of International Monetary Policy undertakes outreach to other Treasury offices to increase awareness among Treasury staff about legislative mandates and to identify opportunities to influence IMF decisions in line with broader U.S. international economic policy objectives.

Standby Arrangements: Section 605(d) of the Foreign Operations, Export Financing, and Related Programs Appropriations Act, 1999, P.L. 105-277, mandates reports on IMF standby or other arrangements with its member countries. Annex I provides the information that responds to that provision.

The text of both legislative provisions is reproduced at the end of this consolidated report. Earlier reports pursuant to these two provisions are available on the Department of the Treasury's website:

<http://www.treasury.gov/resource-center/international/int-monetary-fund/Pages/imf.aspx>

I. Progress of the OUSED in Promoting Policies at the IMF Described in Section 1503(a)

(1) Exchange rate stability

Since the IMF's 2007 Decision to increase bilateral surveillance over member policies, IMF exchange rate surveillance has improved in both breadth and quality. The IMF's Independent Evaluation Office in 2007 found that only 63 percent of Article IV reports from 1995-2005 included a clear assessment of the respective country's currency exchange rate's value in relation to economic fundamentals.¹ In contrast, both the 2008 and 2011 Triennial Surveillance Reviews

¹ Independent Evaluation Office of the International Monetary Fund, "An IEO Evaluation of IMF Exchange Rate Policy Advice, 1999-2005," 2007.

found that over 90 percent had done so after the Decision.² In the 2014 Triennial Surveillance Review staff recommended that the External Balance Assessment, which underpins the IMF's analysis of exchange rate valuations, be extended to a larger group of countries. Significantly, staff have increasingly devoted the Selected Issues papers that accompany Article IV staff reports to exchange rate issues. The sophistication of exchange rate assessments has improved as econometric assessments of the exchange rate's equilibrium value have become more common.

The United States continues to advocate for further improvements to the IMF's surveillance over exchange rates. In 2012, with strong U.S. support, the IMF produced a pilot External Sector Report (ESR), which represents a substantial enhancement to the IMF's work on external analysis as it includes much greater in-depth coverage of IMF exchange rate assessments, as well as assessments of reserves; drivers of current account imbalances; and information on capital flows and measures. We continue to encourage staff to incorporate this analysis into other multilateral and bilateral surveillance products, and to elevate the ESR from a "pilot" to a permanent publication.

The United States encourages countries to pursue more flexible exchange rates, based on underlying fundamentals, including the following examples:

- In an August 2014 board statement on Yemen's Article IV staff report and request for an Extended Credit Facility (ECF), the OUSED welcomed the central bank's plan to modernize its monetary policy framework, which will help facilitate greater exchange rate flexibility.
- In a February 2014 board statement on Nigeria's Article IV staff report, the OUSED called on the government to allow the naira's exchange rate to adjust to external pressures.
- In a January 2014 board statement on Korea's Article IV staff report, the OUSED argued that Korea should halt reserve accumulation and allow the won to appreciate in line with market pressure. The OUSED underscored that the value of the won should be fully market-determined, with intervention strictly limited to smoothing excess volatility.

Treasury has pressed for increased candor, transparency, and even-handedness of IMF exchange rate surveillance as part of the G-20 agenda. In particular, we continue to advocate that Fund staff make tougher ultimate judgments on members' exchange rate management practices. At the September 2014 G-20 Finance Minister and Central Bank Governors meeting in Cairns, Australia, members reiterated that they would meet the G-20 exchange rate commitments. These include moving more rapidly toward more market-determined exchange rate systems and exchange rate flexibility to reflect underlying fundamentals, and not to target exchange rates for competitive purposes.

² International Monetary Fund, "2008 Triennial Surveillance Report – Overview Paper," September 2, 2008 and "2011 Triennial Surveillance Review – Staff Background Studies," August 29, 2011.

(2) Policies to increase the effectiveness of the IMF in promoting market-oriented reform, trade liberalization, economic growth, democratic governance, and social stability through:

(A) Establishment of an independent monetary authority

With the support of the United States, the IMF consistently advocates for greater monetary authority independence across countries. IMF conditionality frequently includes measures to strengthen central bank autonomy and accountability. The IMF also provides technical assistance to help countries achieve these goals. The United States encourages the IMF to support monetary authority independence in various ways, including through the following example:

- In a September 2014 board statement on Burma's Article IV staff report, the OUSED emphasized the recent passage of the Central Bank Law, which established the legal basis for an independent and credible monetary authority.

(B) Fair and open internal competition among domestic enterprises

Although the World Bank leads on this issue, the IMF encourages member countries to pursue policies that improve internal economic efficiency. These measures may include ending directed lending (or other relationships between government and businesses based on favoritism), improving antitrust enforcement, and establishing a sound and transparent legal system. The United States continues to advocate at the IMF for support of fair and open competition globally, including through the following example:

- In a July 2014 board statement on China's Article IV staff report, the OUSED emphasized that China's shift to a more market-based economy should include allowing more foreign competition and liberalizing sectors that are dominated by state-owned enterprises, which should help generate needed productivity gains.

(C) Privatization

Often collaborating with the World Bank, the IMF supports competitive and transparent privatization processes to promote economic efficiency and improve member country fiscal positions. Examples of IMF program and surveillance discussions in which the OUSED has advocated privatization including the following:

- In a March 2014 board statement on Romania's 1st and 2nd Standby Arrangement (SBA) reviews, the OUSED welcomed the successful initial public offerings (IPOs) for Romania's state-owned nuclear power generation and natural gas exploration companies, and the Romanian authorities' intention to use that experience to inform IPOs of other state-owned energy companies.
- In a December 2013 board statement on Pakistan's Extended Fund Facility (EFF), the OUSED urged the authorities to follow robust privatization or divestment plans for loss-making state-owned enterprises.

(D) Economic deregulation and strong legal frameworks

A lack of strong property rights, fair and open competition, and contract enforcement creates distorted markets and stifles entrepreneurship. While the World Bank often addresses these issues, IMF staff also provide relevant advice on measures considered critical to macroeconomic performance. The United States has advocated at the IMF for improved legal frameworks to protect property rights.

- In a January 2014 board statement on Bolivia's Article IV staff report, the OUSED urged the authorities to strengthen the institutional underpinnings for property rights and the rule of law to provide a stronger foundation for growing sectors beyond resource exploration.

(E) Social safety nets

Investment in human development and basic social services is important for sustained economic growth. Cost effective social safety nets can be important in garnering popular support for economic reforms and in cushioning the impact of economic downturns on the population. Through board statements at the IMF, the United States has stressed the importance of protecting social safety net spending, including in the following examples:

- In a December 2013 board statement on Mali's ECF request, the OUSED commended the Malian authorities for reforming fuel subsidies but noted that greater attention should be given to the impact of subsidy reform on poor and vulnerable segments of the population.
- In a May 2014 board statement on Greece's 5th EFF review, the OUSED urged the authorities to end delays in strengthening the social safety net, particularly in light of a worrying divergence on social spending between Greece and the euro area. The OUSED welcomed a one-off "social dividend" for low-income households.

(F) Opening of markets for agricultural goods through reductions in trade barriers

The IMF encourages a multilateral, rules-based approach to trade liberalization across all sectors of the global economy, including the agricultural sector. The IMF is prepared, along with the World Bank, to provide transitional assistance to member countries experiencing payment imbalances arising from trade reform legislation.

(3) Strengthened financial systems and adoption of sound banking principles and practices

The joint IMF-World Bank Financial Sector Assessment Program (FSAP) is an important instrument for financial sector surveillance and advice. Staff use FSAPs to assess compliance with key financial sector standards, including the Basel Committee's Core Principles for Effective Banking Supervision, the International Organization of Securities Commission's Objectives and Principles of Securities Regulation, and the IMF's own Code of Good Practices on Transparency in Monetary and Financial Policies.

In September 2010, the OUSED supported the adoption of IMF management's proposal to make the FSAP a regular and mandatory part of bilateral surveillance for 29 jurisdictions with systemically important financial sectors, including the United States. The IMF also conducts financial sector surveillance through a semi-annual Early Warning Exercise (EWE) and Global Financial Stability Report (GFSR), which identify the most relevant tail risks to the global economy or major regions and provide relevant policy advice. Examples of the OUSED supporting the strengthening of financial systems include the following:

- In an April 2014 board statement on Luxembourg's Article IV staff report, the OUSED expressed support for front-loading the implementation of Basel III capital requirements, and the authorities' precautionary tightening of loan-to-value (LTV) ratios and increased capital surcharges. The OUSED also encouraged the authorities to move quickly to set up the *ex-ante* deposit guarantee scheme and resolution fund required by European regulation.
- In an August 2014 board statement on Norway's Article IV staff report, the OUSED welcomed the authorities' strong progress in implementing the CRD IV/Basel III requirements, which will include countercyclical capital buffers and the designation of domestic systemically-important institutions. The OUSED also noted agreement with IMF staff that tight LTV limits on mortgages and other housing-related macroprudential policies are needed to guard against risks.

(4) Internationally acceptable domestic bankruptcy laws and regulations

In coordination with other international financial institutions, including the World Bank, IMF staff provide technical assistance to member economies as they develop efficient insolvency regimes. Examples of the OUSED supporting the development of domestic bankruptcy laws and regulations include the following:

- In a June 2014 board statement on Zimbabwe's Article IV staff report, the OUSED called for urgent action to resolve troubled banks and concurred with the IMF's recommendation that insolvent institutions should not have access to a proposed Lender-of-Last Resort facility.
- In a December 2013 board statement on Cote d'Ivoire's Article IV staff report, the OUSED highlighted the overly concentrated banking sector and urged authorities to restructure financially troubled public banks and continue efforts to reform and deepen the financial sector to promote improved credit access.

(5) Private sector involvement in crisis resolution

(A) Strengthening crisis prevention through improved surveillance of economic policies and financial sector development

The United States encourages the IMF to further strengthen surveillance and crisis prevention capabilities. The United States and other G-20 members support the IMF's central role in

facilitating multilateral consultation and cooperation on monetary and financial issues. For example, in a September 2014 board statement on the IMF's Triennial Surveillance Review, the OUSED welcomed the IMF's efforts to enhance its macro-financial sector surveillance. The OUSED also welcomed further integration of risk analysis into surveillance, including through enhanced technical assistance and the use of balance sheet analysis.

(B) Strengthening of emerging markets' financial systems

The IMF continues to work with other IFIs to promote stronger financial systems in emerging market economies. Beyond carrying out financial system surveillance functions, the Fund provides technical assistance to low- and lower-middle-income countries to promote financial sector sustainability. Examples of the OUSED supporting a strengthening of emerging market financial systems include the following:

- In a July 2014 board statement on Kazakhstan's Article IV staff report and FSAP, the OUSED noted banks' over-dependence on large corporate deposits and the fact that they remain highly dollarized. The OUSED welcomed the government's shift to boosting the resources of the Problem Loans Fund, which is necessary to resolve bad debts on the asset side of banks' balance sheets.
- In a February 2014 board statement on Barbados's Article IV staff report and FSAP, the OUSED urged the government to adopt staff's recommended measures to shore up the financial system, including increasing central bank independence, strengthening supervision, and improving loan loss provisioning.

(C-H) Strengthened crisis resolution mechanisms

The United States encourages appropriate private sector involvement in financial crisis resolution, including facilitating IMF efforts to strengthen crisis prevention and resolution mechanisms worldwide. Most recently, the United States has worked to improve sovereign debt restructuring processes. Treasury staff convened a Sovereign Debt Roundtable in 2013-14 to strengthen the contractual approach to sovereign debt restructuring through new model clauses for sovereign debt contracts. In October 2014, the IMF board endorsed a proposal for a new model of collective action clauses (CAC). The new model introduces a narrower equal ranking clause that provides less scope for holdouts to block payments on new bonds that emerge from a restructuring. The model also provides stronger provisions for collective action that would allow the votes by holders of different classes of bonds to be aggregated into a single up or down vote on the restructuring proposal. During the board meeting, the OUSED strongly supported these contract revisions and underscored the IMF's lead role in promoting adoption of the clauses.

(6) Good governance

The IMF emphasizes good governance when providing policy advice, financial support, and technical assistance to member countries. The IMF supports good governance through an emphasis on transparency, strong fiduciary diagnostics, and promotion of market-based reforms. The Fund's involvement has focused on those governance aspects that are generally considered

part of the IMF's core expertise, such as improving public administration, increasing government transparency, enhancing data dissemination, and implementing effective financial sector supervision. Examples of U.S. efforts to encourage good governance include the following:

- In a January 2014 board statement on Malawi's 3rd and 4th ECF review, the OUSED urged the authorities to continue to improve public financial management, including strengthening financial management systems, following a significant corruption crisis.
- In a July 2014 board statement on Liberia's 3rd ECF review, the OUSED stressed the need to improve public financial management and procurement procedures to address weaknesses in the government's budgetary framework.

(7) Channeling public funds away from unproductive purposes, including large “showcase” projects and excessive military spending, and toward investment in human and physical capital to protect the neediest and promote social equity

The Fund's Code of Good Practices on Fiscal Transparency identified principles and practices to enhance fiscal policy transparency, promote quality audit and accounting standards, and reduce or eliminate off-budget transactions. The IMF also developed a Guide to Resource Revenue Transparency and a Fiscal Report on Standards and Codes (Fiscal ROSC) for use in resource-rich (oil/gas-mining) countries. The IMF strongly supports the Extractive Industries Transparency Initiative (EITI) by providing policy and technical support to the EITI Secretariat and implementing countries. Examples of the OUSED promoting improved channeling of public resources include the following:

- In an April 2014 board statement on the IMF's Baltic Cluster Report, the OUSED called for adequate fiscal resources to be allocated to social assistance in Latvia, and for better targeting of social assistance to low-income Latvians, given that the richest quintile of the population receives nearly 30 percent of the social assistance benefits.
- In a September 2014 board statement on Yemen's ECF request, the OUSED urged the authorities to resist political pressure to reverse recent fuel price increases. The OUSED also encouraged timely implementation of an increase in cash transfers to the poorest Yemenis to offset the impact of the fuel subsidy reductions on the poor.

(8) Economic prescriptions appropriate to the economic circumstances of each country

The United States has emphasized the need to focus policy advice on issues critical to growth and macroeconomic stability in each country. We have supported IMF staff efforts to increasingly tailor policy advice to country-specific circumstances. The United States has supported country-relevant economic prescriptions in the following ways:

- In a December 2013 board statement on Zambia's Article IV staff report, the OUSED welcomed the implementation of fuel and agricultural subsidy reform in a way that protected the vulnerable populations, including the introduction of a compensatory cash transfer program for the poorest.

- In an August 2014 board statement on Ukraine’s 1st SBA review, the OUSED supported the Fund’s flexible approach on the country’s reserve targets given the volatile exchange rate and deposit and capital outflows resulting from the security situation, and urged staff to take a pragmatic approach going forward.

(9) Core labor standards (“CLS”)

The United States promotes integration of core labor standards into the IMF’s analysis, including by encouraging the Fund to cooperate with the International Labor Organization (ILO) to establish best practices on CLS policies. The State Department monitors labor standards in all IFI borrower countries, and, since 1994, Treasury has implemented a legislative mandate to submit a report to Congress assessing progress made by the IFIs with respect to internationally recognized worker rights. In addition, the OUSED advocates at the IMF for improved labor standards, including through the following example:

- In a November 2013 board statement on Bangladesh’s ECF, the OUSED noted the importance of further steps to address workplace safety, drawing on the assistance of development and private sector partners.

(10) Discouraging practices that may promote ethnic or social strife

By helping to create the conditions for a sound economy, IMF assistance can help reduce ethnic and social strife. The United States encourages the IMF to highlight development and improvement of social safety nets in member countries, including those implementing difficult economic reforms. The IMF increasingly consults widely throughout a population, including with NGOs, academics, and think tanks, to develop a strong constituency for economic reforms. The United States continues to discourage practices that may promote ethnic or social strife, including through the following examples:

- In a September 2014 board statement, the OUSED strongly supported the provision of additional IMF assistance to Guinea, Liberia, and Sierra Leone to help these countries respond to the Ebola outbreak, noting not only the loss of life but the social disruption caused by the virus.
- In a May 2014 board statement on Ghana’s Article IV staff report, the OUSED commended the government’s transformation agenda’s focus on social inclusion.

(11) Link between environmental and macroeconomic conditions and policies

Where environmental issues pose fiscal, financial, and macroeconomic challenges, the IMF provides advice in line with its mandate and expertise. The IFIs work together to assess the magnitude of pollution and other major environmental side effects associated with fossil fuel use, and to provide guidance on energy tax reforms for a broad range of developed and developing countries.

The United States supports policies that increase macroeconomic stability while reducing negative environmental impacts. For example, in a June 2014 board statement on Madagascar's Rapid Credit Facility (RCF), the OUSED urged the new government to address illegal logging, which is devastating the country's rain forests while undercutting the sustainable use of natural resources to promote economic growth.

(12) Greater transparency

With strong U.S. support, the IMF emphasizes the need for increased transparency in policy development and implementation. Part of this process includes publication of the Article IV staff report, which the United States urges all member economies to do. The Board completed its latest review of IMF transparency in June 2013, which continued to favor publication of all Article IV and Use of Fund Resources documents. According to the IMF, currently 80 percent of members agree to publication of their staff report.³

With U.S. support, the IMF continues to urge countries to provide additional economic and financial information to the public by regularly releasing data consistent with the IMF's Special Data Dissemination Standards (SDDS). Over 90 percent of Fund members subscribe to either the General Data Dissemination Standards or SDDS. In 2012, the IMF launched the SDDS Plus initiative, which includes nine additional data categories. The OUSED continues to urge greater transparency of IMF member countries, including through the following example:

- In a July 2014 board statement on China's Article IV staff report, the OUSED urged Chinese authorities to adopt greater transparency of reserve holdings and exchange market intervention, through subscription to the SDDS, to which President Xi Jinping officially agreed at the November G20 Summit; through adoption of Currency Composition of Official Foreign Exchange Reserves (COFER); and through disclosure, ex post, of actual intervention amounts.

(13) Greater IMF accountability and enhanced self-evaluation

In 2000, with the strong urging of the OUSED, the Executive Board established an Independent Evaluation Office (IEO) to supplement existing internal and external evaluation activities. The IEO provides objective and independent evaluation on issues related to the IMF, and operates independently of Fund management and at arm's length from the IMF Board. On average, the IEO concludes two or three evaluations per year, and each evaluation normally takes about 18 months to complete. Recent evaluations include the following, which are publicly available on the IEO's website:⁴

- IMF Response to the Financial and Economic Crisis: an IEO Evaluation (October 2014)
- Revisiting the 2004 IEO Evaluation of the IMF's Role in PRSPs and the PRGF and the 2007 IEO Evaluation of the IMF and Aid to Sub-Saharan Africa (August 2014)

³ Reports from publishing countries can be found here: <http://www.imf.org/external/ns/cs.aspx?id=51>.

⁴ <http://www.imf.org/external/np/ieo/index.htm>

- Recurring Issues from a Decade of Evaluation: Lessons for the IMF (July 2014)

(14) Structural reforms which facilitate the provision of credit to small businesses, including microenterprise lending

The lack of financial services available to the poor is a significant growth obstacle for many developing countries. Through the IMF, the United States promotes structural reforms that encourage credit provision to small and micro enterprises. For example, in a May 2014 board statement on Mozambique’s 2nd PSI review, the OUSED highlighted the importance of planned reforms to improve SME’s access to credit; reduce discrimination against small farms; and promote financial inclusion through mobile banking.

(15) Anti-Money Laundering and Combating the Financing of Terrorism (“AML/CFT”)

The United States has consistently worked to incorporate the IMF’s work into the global effort to fight illicit finance, including by encouraging collaboration between the Fund and the Financial Action Task Force (“FATF”). Coordination between the IMF, World Bank, FATF, and FATF-style regional bodies (FSRBs) in assessing compliance with the international AML/CFT standards, including use of the same methodology, institutionalizes the global fight against terrorist financing and money laundering and helps countries to identify shortfalls in their AML/CFT regimes and implement reforms. As of September 2014, the IMF had conducted over 70 assessments of country compliance with the FATF Recommendations.

In March 2014, the IMF Board considered a staff review of AML/CFT issues, including a proposal to reduce the number of reports on the observance of standards and codes (ROSCs) based on FATF and FSRB mutual evaluations. Staff also proposed reserving the right to amend a FATF-approved mutual evaluation. Examples of OUSED support for improved AML/CFT frameworks include the following:

- In a June 2014 board statement on Madagascar’s RCF, the OUSED welcomed news that the authorities had requested IMF technical assistance on AML/CFT issues.
- In a November 2013 board statement on Turkey’s Article IV staff report, the OUSED welcomed the steps taken by Turkey to adopt CFT legislation and regulations. The OUSED also encouraged the authorities to take further steps to protect the financial sector and urged the government to continue to engage with the FATF to address remaining concerns.
- In a June 2014 board statement on Cyprus’ 4th EFF review, the OUSED welcome the authorities’ efforts to strengthen central bank supervision and enforcement of the AML/CFT framework. The OUSED encouraged the government to continue to strengthen the AML/CFT regime in line with international standards.

II. IMF Implementation of Six Reform Policies Described in Section 801(c)(1)(B)

(I) Suspension of IMF financing if funds are being diverted for purposes other than the purposes for which the financing was intended

With strong U.S. support, the IMF works to ensure that IMF resources are used solely for the purposes for which they are intended. One of the IMF's most effective tools against corruption is the Safeguards Assessment used to prevent possible misuse of IMF resources and misreporting of information. All countries that request to use IMF resources must agree to undergo a Safeguards Assessment. Its purpose is to identify vulnerabilities in a central bank's control systems. IMF staff carry out this diagnostic exercise to consider the adequacy of five key areas of control and governance within a central bank: (i) the external audit mechanism; (ii) the legal structure and independence; (iii) the financial reporting framework; (iv) the internal audit mechanism; and (v) the internal controls system. The framework was introduced in March 2000 and most recently reviewed in July 2010. As of October 3, 2014, 267 Safeguards Assessments covering 98 central banks have been completed.

(II) IMF financing as a catalyst for private sector financing

The IMF recognizes that, if structured effectively, official financing can complement and attract private sector flows. The Fund promotes policy reforms that catalyze private financing and, in cases of financial crisis, allow countries to regain access to international private capital markets as quickly as possible. (See Section V above for a more in-depth discussion of private sector involvement.)

(III) Financing must be disbursed (i) on the basis of specific prior reforms; or (ii) incrementally upon implementation of specific reforms after initial disbursement

IMF disbursements are made in tranches based on a country's performance against specified criteria and policy actions, both prior to and during the program. Together with the rest of the IMF's Executive Board, the OUSED plays a strong oversight role in ensuring that management only brings forward new programs or releases a new tranche of funds after such criteria and policy actions have been met.

(IV) Open markets and liberalization of trade in goods and services

The IMF has advocated consistently for open markets and trade liberalization. The Fund also recognizes that trade adjustments can cause temporary balance of payments problems and has developed the Trade Integration Mechanism (TIM) to provide transitional financial assistance to countries if needed. The Fund also has a key responsibility in dealing with the revenue implications of trade liberalization, such as sequencing domestic tax reforms with the trade liberalization process. Throughout the financial crisis the IMF consistently advised countries that protectionism is not a path to economic recovery.

The IMF has developed an implementation plan for international trade policy issues that calls for reviews of Fund work on trade policy every five years, beginning in 2014. The plan deemphasizes trade policy as an element of program conditionality, but still emphasizes trade liberalization where necessary to achieve the macroeconomic objectives of a Fund-supported program. The plan also calls for more frequent coverage of cross-cutting trade policy issues in the Fund's multilateral and regional surveillance vehicles (such as the World Economic Outlook and the Regional Economic Outlooks) and closer cooperation with the WTO and World Bank on trade. Staff will present the report for Board review in early 2015.

(V) IMF financing to concentrate chiefly on short-term balance of payments financing

In 2000 and again in 2009, with strong U.S. support, the IMF agreed to reorient IMF lending to discourage continued or prolonged use of IMF funds and provide incentives for quick repayment. In 2000, the IMF introduced a shorter repayment period for the Extended Arrangement, and in 2009 initiated a time-based surcharge to promote early repayment and increased commitment fees for higher levels of access.

For low-income countries, the IMF established the Standby Credit Facility (SCF) in July 2009 as a new instrument for concessional financing, largely in response to U.S. advocacy. The SCF will fill a long-standing gap in the IMF concessional facilities architecture by providing low-income countries with a facility specifically designed for intermittent use in response to short-term balance of payments financing gaps. The SCF also carries a shorter repayment period than the IMF's other concessional facilities. The United States also continues to be a strong advocate for the non-borrowing Policy Support Instrument (PSI) which provides a framework for IMF policy advice and donor signaling without the need for IMF lending. The United States has discouraged low-income countries from pursuing serial Poverty Reduction and Growth Trust (PRGT) programs. The United States urges those countries without a clear balance of payments need to opt for a PSI, in which case they retain the option of seeking SCF financing in the event of sudden adverse developments.

Along similar lines, in 2009 the IMF created the Flexible Credit Line (FCL), the Precautionary and Liquidity Line (PLL) and the Rapid Credit Facility (RCF) to provide members with shorter-term liquidity to meet temporary balance of payments needs. The IMF Board completed a review of these arrangements in 2014, resulting in a modification of PLL assessment criteria, adoption of institutional capacity indicators for assessing qualification, and creation of an external risk index that will help guide discussions about country exit from these credit line arrangements.

(VI) Graduation from receiving financing on concessionary terms

The United States supports comprehensive growth strategies to help countries graduate from concessional to market-based lending. The United States works closely with the IMF and World Bank to promote a growth-oriented agenda in developing countries based on strong macroeconomic and structural policies. The IMF extends concessional credit through the PRGT. Eligibility is based principally on a country's per capita income and eligibility for financing under the International Development Association (IDA), the World Bank's concessional window.

The current operational cutoff point for IDA eligibility is a per capita GNI level of \$1,195. A member will graduate and be removed from the PRGT-eligibility list if the following apply: (1) its annual per capita GNI has been above the IDA cutoff point for the past five years with an increasing trend, and is currently at least twice the operational IDA cutoff for most states (three times the cutoff for small states and six times the cutoff for microstates); and/or (2) the member has the ability to durably and substantially access international financial markets and has a per capita GNI above 80 percent of the IDA cutoff, with GNI per capita on an increasing trend for the past five years; and, (3) the member country faces a low risk of a sharp decline in income or market access and limited debt vulnerabilities, as determined by the Fund's quantitative analysis.

In January 2010, Albania, Angola, and Azerbaijan graduated on the basis of the income criterion, while India, Sri Lanka, and Pakistan graduated on the basis of the market access criterion. In 2013, Armenia and Georgia graduated on the basis of the income criterion. While other countries have met the income and market access criteria for graduation, they had not been proposed for graduation given that they face serious short-term vulnerabilities. The next graduation review will take place in 2015.

Legislative Provisions

Section 1705(a) of the International Financial Institutions Act, as amended Annual report and testimony on state of international financial system, IMF reform, and compliance with IMF agreements

(a) Access to Materials. - Not later than October 1 of each year, the Secretary of the Treasury shall submit to the Committees on Banking and Financial Services and on Ways and Means of the House of Representatives and the Committees on Finance and on Foreign Relations of the Senate a written report on (1) the progress (if any) made by the United States Executive Director at the International Monetary Fund in influencing the International Monetary Fund to adopt the policies and reform its internal procedures in the manner described in section 1503, and (2) the progress made by the International Monetary Fund in adopting and implementing the policies described in section 801(c)(1)(B) of the Foreign Operations, Export Financing, and Related Programs Appropriations Act, 2001.

Section 1503(a) of the International Financial Institutions Act, as amended (originally passed as Section 610(a) of the Foreign Operations, Export Financing, and Related Programs Appropriations Act, 1999, and amended in 2004)

The Secretary of the Treasury shall instruct the United States Executive Director of the International Monetary Fund to use aggressively the voice and vote of the Executive Director to do the following:

(1) Vigorously promote policies to increase the effectiveness of the International Monetary Fund in structuring programs and assistance so as to promote policies and actions that will contribute to exchange rate stability and avoid competitive devaluations that will further destabilize the international financial and trade systems.

(2) Vigorously promote policies to increase the effectiveness of the International Monetary Fund in promoting market-oriented reform, trade liberalization, economic growth, democratic governance, and social stability through –

(A) Establishing an independent monetary authority, with full power to conduct monetary policy, that provides for a non-inflationary domestic currency that is fully convertible in foreign exchange markets;

(B) Opening domestic markets to fair and open internal competition among domestic enterprises by eliminating inappropriate favoritism for small or large businesses, eliminating elite monopolies, creating and effectively implementing anti-trust and anti-monopoly laws to protect free competition, and establishing fair and accessible legal procedures for dispute settlement among domestic enterprises;

(C) Privatizing industry in a fair and equitable manner that provides economic opportunities to a broad spectrum of the population, eliminating government and elite monopolies, closing loss-making enterprises, and reducing government control over the factors of production;

(D) Economic deregulation by eliminating inefficient and overly burdensome regulations and strengthening the legal framework supporting private contract and intellectual property rights;

(E) Establishing or strengthening key elements of a social safety net to cushion the effects on workers of unemployment and dislocation; and

(F) Encouraging the opening of markets for agricultural commodities and products by requiring recipient countries to make efforts to reduce trade barriers.

(3) Vigorously promote policies to increase the effectiveness of the International Monetary Fund, in concert with appropriate international authorities and other international financial institutions (as defined in Section 1701(c)(2)), in strengthening financial systems in developing countries, and encouraging the adoption of sound banking principles and practices, including the development of laws and regulations that will help to ensure that domestic financial institutions meet strong standards regarding capital reserves, regulatory oversight, and transparency.

(4) Vigorously promote policies to increase the effectiveness of the International Monetary Fund, in concert with appropriate international authorities and other international financial institutions (as defined in Section 1701(c)(2)), in facilitating the development and implementation of internationally acceptable domestic bankruptcy laws and regulations in developing countries, including the provision of technical assistance as appropriate.

(5) Vigorously promote policies that aim at appropriate burden-sharing by the private sector so that investors and creditors bear more fully the consequences of their decisions, and accordingly advocate policies which include –

(A) Strengthening crisis prevention and early warning signals through improved and more effective surveillance of the national economic policies and financial market development of countries (including monitoring of the structure and volume of capital flows to identify problematic imbalances in the inflow of short and medium term investment capital, potentially destabilizing inflows of offshore lending and foreign investment, or problems with the maturity profiles of capital to provide warnings of imminent economic instability), and fuller disclosure of such information to market participants;

(B) Accelerating work on strengthening financial systems in emerging market economies so as to reduce the risk of financial crises;

(C) Consideration of provisions in debt contracts that would foster dialogue and consultation between a sovereign debtor and its private creditors, and among those creditors;

(D) Consideration of extending the scope of the International Monetary Fund's policy on lending to members in arrears and of other policies so as to foster the dialogue and consultation referred to in subparagraph (C);

(E) Intensified consideration of mechanisms to facilitate orderly workout mechanisms for countries experiencing debt or liquidity crises;

(F) Consideration of establishing ad hoc or formal linkages between the provision of official financing to countries experiencing a financial crisis and the willingness of market participants to meaningfully participate in any stabilization effort led by the International Monetary Fund;

(G) Using the International Monetary Fund to facilitate discussions between debtors and private creditors to help ensure that financial difficulties are resolved without inappropriate resort to public resources; and

(H) The International Monetary Fund accompanying the provision of funding to countries experiencing a financial crisis resulting from imprudent borrowing with efforts to achieve a significant contribution by the private creditors, investors, and banks which had extended such credits.

(6) Vigorously promote policies that would make the International Monetary Fund a more effective mechanism, in concert with appropriate international authorities and other international financial institutions (as defined in Section 1701(c)(2)), for promoting good governance principles within recipient countries by fostering structural reforms, including procurement reform, that reduce opportunities for corruption and bribery, and drug-related money laundering.

(7) Vigorously promote the design of International Monetary Fund programs and assistance so that governments that draw on the International Monetary Fund channel public funds away from unproductive purposes, including large “show case” projects and excessive military spending, and toward investment in human and physical capital as well as social programs to protect the neediest and promote social equity.

(8) Work with the International Monetary Fund to foster economic prescriptions that are appropriate to the individual economic circumstances of each recipient country, recognizing that inappropriate stabilization programs may only serve to further destabilize the economy and create unnecessary economic, social, and political dislocation.

(9) Structure International Monetary Fund programs and assistance so that the maintenance and improvement of core labor standards are routinely incorporated as an integral goal in the policy dialogue with recipient countries, so that –

(A) Recipient governments commit to affording workers the right to exercise internationally recognized core worker rights, including the right of free association and collective bargaining through unions of their own choosing;

(B) Measures designed to facilitate labor market flexibility are consistent with such core worker rights; and

(C) The staff of the International Monetary Fund surveys the labor market policies and practices of recipient countries and recommends policy initiatives that will help to ensure the maintenance or improvement of core labor standards.

(10) Vigorously promote International Monetary Fund programs and assistance that are structured to the maximum extent feasible to discourage practices which may promote ethnic or social strife in a recipient country.

(11) Vigorously promote recognition by the International Monetary Fund that macroeconomic developments and policies can affect and be affected by environmental conditions and policies, and urge the International Monetary Fund to encourage member countries to pursue macroeconomic stability while promoting environmental protection.

(12) Facilitate greater International Monetary Fund transparency, including by enhancing accessibility of the International Monetary Fund and its staff, foster a more open release policy toward working papers, past evaluations, and other International Monetary Fund documents, seeking to publish all Letters of Intent to the International Monetary Fund and Policy Framework Papers, and establishing a more open release policy regarding Article IV consultations.

(13) Facilitate greater International Monetary Fund accountability and enhance International Monetary Fund self-evaluation by vigorously promoting review of the effectiveness of the Office of Internal Audit and Inspection and the Executive Board's external evaluation pilot program and, if necessary, the establishment of an operations evaluation department modeled on the experience of the International Bank for Reconstruction and Development, guided by such key principles as usefulness, credibility, transparency, and independence.

(14) Vigorously promote coordination with the International Bank for Reconstruction and Development and other international financial institutions (as defined in Section 1701 (c)(2)) in promoting structural reforms which facilitate the provision of credit to small businesses, including microenterprise lending, especially in the world's poorest, heavily indebted countries.

(15) Work with the International Monetary Fund to

(A) foster strong global anti-money laundering (AML) and combat the financing of terrorism (CFT) regimes;

(B) ensure that country performance under the Financial Action Task Force anti-money laundering and counterterrorist financing standards is effectively and comprehensively monitored;

(C) ensure note is taken of AML and CFT issues in Article IV reports, International Monetary Fund programs, and other regular reviews of country progress;

(D) ensure that effective AML and CFT regimes are considered to be indispensable elements of sound financial systems; and

(E) emphasize the importance of sound AML and CFT regimes to global growth and development.

Section 801(c)(1)(B) Foreign Operations, Export Financing, and Related Programs Appropriations Act, 2001

Treasury should report on the extent to which the IMF is implementing –

I. Policies providing for the suspension of financing if funds are being diverted for purposes other than the purpose for which the financing was intended;

II. Policies seeking to ensure that financing by the Fund normally serves as a catalyst for private sector financing and does not displace such financing;

III. Policies requiring that financing must be disbursed (i) on the basis of specific prior reforms; or (ii) incrementally upon implementation of specific reforms after initial disbursement;

IV. Policies vigorously promoting open markets and liberalization of trade in goods and services;

V. Policies providing that financing by the Fund concentrate chiefly on short-term balance of payments financing;

VI. Policies providing for the use, in conjunction with the Bank, of appropriate qualitative and quantitative indicators to measure progress toward graduation from receiving financing on concessionary terms, including an estimated timetable by which countries may graduate over the next 15 years.

**Section 605(d) of the Foreign Operations, Export Financing, and Related Programs
Appropriations Act, 1999**

On a quarterly basis, the Secretary of the Treasury shall report to the appropriate committees on the standby or other arrangements of the Fund made during the preceding quarter, identifying separately the arrangements to which the policies described in section 601(4) of this title apply and the arrangements to which such policies do not apply.

Section 601. ***

(4) Policies providing that, in circumstances where a country is experiencing balance of payments difficulties due to a large short-term financing need resulting from a sudden and disruptive loss of market confidence and in order to provide an incentive for early repayment and encourage private market financing, loans made from the Fund's general resources after the date of the enactment of this section are the following:

(A) made available at an interest rate that reflects an adjustment for risk that is not less than 300 basis points in excess of the average of the market-based short term cost of financing of its largest members; and

(B) repaid within 1 to 2 ½ years from each disbursement.

**ANNEX 1 Report to Congress on International Monetary Fund Lending
October 1, 2013 – September 30, 2014**

October 1 – December 31, 2013

Board Approval Date	Country	Amount	Type	U.S. Position
10/21/2013	Sierra Leone	SDR 62.22 million (\$95.9 million)	ECF	Support
12/2/2013	Rwanda	NCV	PSI	Support
12/16/2013	Burkina Faso	SDR 27.09 million (\$41.6 million)	ECF	Support
12/18/2013	Mali	SDR 30 million (\$46.2 million)	ECF	Support

January 1 – March 31, 2014

Board Approval Date	Country	Amount	Type	U.S. Position
2/28/2014	Albania	SDR 295.42 million (\$457.1 million)	EFF	Support
3/7/2014	Armenia	SDR 82.21 million (\$127.6 million)	EFF	Support

April 1 – June 30, 2014

Date	Country	Amount	Type	U.S. Position
4/30/2014	Ukraine	SDR 10.976 billion (\$17.01 billion)	SBA	Support
5/14/2014	Central African Republic	SDR 8.355million (\$12.9 million)	RCF Disbursement	Support
6/5/2014	Seychelles	SDR 11.445 million (\$17.6 million)	EFF	Support
6/18/2014	Madagascar	SDR 30.55 million (\$47.1 million)	RCF Disbursement	Support
6/26/2014	Grenada	SDR 14.04 million (\$21.7 million)	ECF	Support

July 1 – September 30, 2014

Board Approval Date	Country	Amount	Type	U.S. Position
7/28/2014	Morocco	SDR 3.235 billion (\$5 billion)	PLL	Support
7/31/2014	Georgia	SDR 100 million (\$154 million)	SBA	Support
8/1/2014	Chad	SDR 79.92 million (\$122.4 million)	ECF	Support
8/1/2014	St. Vincent and The Grenadines	SDR 4.15 million (\$6.4 million)	RCF Disbursement	Support
9/2/2014	Republic of Yemen	SDR 365.25 million (\$552.9 million)	ECF	Support

Notes:

1. FCL: Flexible Credit Line; RCF: Rapid Credit Facility; PLL: Precautionary and Liquidity Line; ECF: Extended Credit Facility; SBA: Stand-By Arrangement; PSI: Policy Support Instrument; EFF: Extended Fund Facility
2. The policies described in section 601(4) of the Foreign Operations, Export Financing, and Related Programs Appropriations Act 1999 did not apply to any of the programs above.