REPORT TO CONGRESS FROM THE CHAIRMAN OF THE NATIONAL ADVISORY COUNCIL ON INTERNATIONAL MONETARY AND FINANCIAL POLICIES

A Report to Congress

consistent with

Section 1701 of the
International Financial Institutions Act,
as amended by the Omnibus Appropriations Act, 1999

United States Department of the Treasury
2017

INTRODUCTION[2]

The international financial institutions (IFIs) play an essential role in support of U.S. national interests at home and abroad. The IFIs further U.S. and global security interests, support U.S. economic growth and jobs, and help maintain open markets and financial stability. The IFIs help to fight poverty, enhance food security, and respond to emerging crises and emergency situations, including natural disasters, pandemics, and the protracted displacement of refugees.

U.S. leadership was instrumental in founding and designing most of these institutions, and the United States remains the largest or joint largest shareholder, except in the African Development Bank where the United States is the most significant non-African shareholder. The United States uses its shareholding, voice on the governance bodies, and convening power to proactively shape IFI policies and activities in support of U.S. national security, economic interests, and values.

The United States needs to maintain its leadership position in the IFIs if they are to be effective vehicles for supporting U.S. interests and responsive to U.S. calls for reform. Throughout 2016, the United States promoted policy reforms across the IFIs to improve their governance, make better use of their existing financial resources, strengthen their effectiveness, and improve their efficiency while maintaining high fiduciary, social, and environmental standards.

This report covers the period from January 2016 through January 2017 and looks at prospects for the remainder of 2017 for the International Monetary Fund (IMF) and the multilateral development banks (MDBs), including the World Bank, African Development Bank, Asian Development Bank, European Bank for Reconstruction and Development, Inter-American Development Bank, International Fund for Agricultural Development, and North American Development Bank. It also includes the Report to Congress on the International Development Association's Contributions to Graduation.

INTERNATIONAL MONETARY FUND (IMF)

Major Issues Affecting U.S. Participation in the IMF

The United States plays a key role in shaping IMF policy and institutional issues through its role as the IMF's largest shareholder, and participates in the IMF financially through a quota subscription[3] and a contribution to the IMF's financial backstop, the New Arrangements to Borrow (NAB). The United States has a voting share of 16.5 percent, and because of this, is the only IMF member country with the ability to veto major institutional decisions.

---

[2] Section 1701 of the International Financial Institutions Act, as amended by section 583 of the Omnibus Consolidated and Emergency Supplemental Appropriations Act, 1999 (P.L. 105-277), requires the Chairman of the National Advisory Council on International Monetary and Financial Policies (the Secretary of the Treasury, as designated pursuant to Executive Order 11269 of February 14, 1966, as amended) to report annually to Congress on the participation of the United States in the international financial institutions (IFIs).

[3] Quotas are the metric used by the IMF to assign voting rights, to determine contributions to the IMF's general resources and to determine access to IMF financing.

Following Congressional approval of IMF quota and governance reforms in December 2015, the United States consented to the reforms in January 2016, and the IMF implemented the reforms in February 2016. These reforms (originally agreed upon in 2010): (1) doubled the IMF's core quota resources,[4] with a corresponding rollback of the NAB; (2) amended the IMF's Articles of Agreement to move to an all-elected Executive Board; (3) increased the IMF's legitimacy by shifting more than 6 percent of quota shares to dynamic and under-represented emerging market and developing countries; and (4) preserved the quota and voting shares of the poorest member countries. Under the reforms, the United States retains its current seat in the Executive Board and maintains its voting share above 15 percent preserving veto power without increasing the overall financial commitment to the IMF. The increase in the U.S. quota is offset by a corresponding decrease in U.S. participation in the NAB.

In February 2016, following the increase in the IMF's core quota resources, the IMF reduced the size of the NAB (as provided in the 2010 reform package), and deactivated it. The NAB is a set of standing borrowing arrangements with 38 financially strong members, including the United States, and provides an important supplement to the IMF's core quota resources. A decision to activate the NAB requires approval by an 85 percent share of the NAB membership. The United States (with a 15.4 percent share of the NAB following implementation of the 2010 reforms) has a veto over such decisions.

In November 2016, the IMF's Executive Board approved the renewal of the NAB for another five years starting in November 2017. The NAB entered into effect in November 1998 and has been renewed continuously, helping to maintain the IMF's lending capacity and provide confidence that the IMF will continue to address the needs of its membership. Congressional authorization for U.S. participation in the NAB expires in December 2022, unless renewed.

The delay in U.S. consent to the 2010 quota and governance reforms also delayed the IMF's quinquennial regular review of its quota resources. The fifteenth review of IMF quotas was originally scheduled to conclude in 2015, but is now set to begin in late 2017 or early 2018 and conclude in 2019.

IMF Financing and Policy Developments in 2016

The IMF plays a vital role in safeguarding the international financial system and promoting financial stability through its principal activities of surveillance, financing, and technical assistance. The IMF's bilateral and multilateral surveillance is aimed at encouraging policies that contribute to global growth and financial stability and discouraging policies that are not sustainable or have harmful spillover effects on other countries. As the world's first responder to financial crises, IMF financing continues to play an importantrole in protecting the U.S. economy – and the prosperity of American workers, households, and businesses – from the destabilizing effects of crises abroad. The IMF complements its financing with expert analysis and technical advice, and helps countries build capacity to manage their economies more effectively.

[4] The IMF has also adjusted downward its access limits and thresholds for surcharges (both are expressed as a percentage of a country's quota), to take into account that country quotas have doubled, on average.

At the end of 2016, the IMF had 23 financing arrangements in place using its general resources for a total of $153 billion, including four precautionary arrangements totaling $108 billion. New financing arrangements executed during 2016 include Egypt, Iraq, Kenya, Jamaica, and Tunisia, and the IMF renewed precautionary arrangements with Colombia, Mexico, and Morocco. In addition, the IMF provided $364 million via its Rapid Financing Instrument for Ecuador. In January 2017, the IMF renewed a precautionary arrangement with Poland.

With regard to the IMF's concessional resources for low-income countries, at the end of 2016 the IMF had 19 financing arrangements in place for a total of $3.6 billion. During 2016, the IMF agreed on new concessional financing arrangements with Afghanistan, Central African Republic, Cote d'Ivoire, Madagascar, Moldova, and Rwanda. In addition, the IMF provided a total of $41.6 million in single-tranche Rapid Credit assistance for Haiti. In January 2017, the IMF agreed on a new concessional financing arrangement with Niger.

With consistent pressure from the United States, the IMF has continued to hold its administrative budget flat in real terms since 2012, with the exception of a $6 million increase for security-related costs in the fiscal year that ended in April 2017.

The IMF also reviewed and reformed a number of key policies during 2016 and January 2017:

- *Assessing Fiscal Space.* In December 2016, the IMF adopted a framework to enhance IMF surveillance and assessment of fiscal space. The IMF's new framework allows for the assessment of available fiscal space – which is broadly defined as the ability of a government to increase spending or lower taxes without endangering market access and debt sustainability – in a way that is comparable across countries and provides a consistent approach to assess available space as an input to inform decisions about fiscal policy.

- *Post Program Monitoring.* In July 2016, the IMF strengthened its Post Program Monitoring (PPM) framework. PPM refers to enhanced economic monitoring of countries with relatively large IMF credit outstanding. It promotes ongoing macroeconomic sustainability after the expiration of a country's IMF-supported program and provides an early warning of policies that could jeopardize the IMF's resources. A strong PPM system provides an additional safeguard for U.S. financial commitments, as it monitors IMF members' policies and economic conditions, with a focus on assessing the country's capacity to repay obligations to the IMF.

- *Institutional Views on Capital Flows.* In December 2016, the IMF reviewed experience with its Institutional View on Capital Flows, established in 2012. The Institutional View calls on countries to rely on macroeconomic adjustment and strengthening of financial sector supervision as a first line of defense against capital flow volatility, and resort to capital flow restrictions only in a temporary, targeted, and transparent manner when policy adjustment proves insufficient. The IMF's review concluded that the Institutional View remains relevant and there is no need for substantive adjustment, while also clarifying that measures that restrict capital flows, even if taken for prudential purposes, should be temporary and targeted.

- *Low Income Countries Debt Sustainability Framework.* The joint IMF-World Bank Low Income Countries Debt Sustainability Framework (LIC-DSF) has played an important role in promoting sound debt management practices and avoiding unsustainable build-up of debt in low income countries since 2005. The IMF began a review of the LIC-DSF in 2016, responding to concerns such as rising debt loads in LICs, increased non-concessional lending, and greater market access. While the IMF Executive Board concluded that the LIC-DSF is working well, it pointed to a few areas for improvement, including: (1) developing realistic tools to address biases in baseline projections; (2) revising stress tests to better take account of risks from contingent liabilities, export price shocks, market access, and natural disasters; (3) better monitoring of market liquidity riskThe Executive Board will consider a specific proposal for adjusting the LIC-DSF in 2017.

- *Special Drawing Rights Basket.* In October 2016, the IMF implemented its 2015 decision to add the Chinese RMB as the fifth currency in the SDR basket, joining the U.S. dollar, euro, Japanese yen, and British pound, after IMF staff had concluded a technical assessment that the RMB had met the SDR basket requirements

- *PRGT Interest Rate Structure.* In October 2016, the IMF approved a modification of the mechanism governing the setting of interest rates for the IMF's donor-financed concessional lending window, the Poverty Reduction and Growth Trust (PRGT).[5] The IMF will set interest rates at zero for all IMF concessional loans under the PRGT for as long as and whenever global market rates are below an established threshold. Zero rates will apply through end-December 2018 and are likely to continue through 2020, based on projections of global interest rates.

- *Lessons from the Euro Area Programs.* In July 2016, the IMF's Independent Evaluation Office (IEO) published a report on the IMF and the crises in Greece, Ireland, and Portugal. The report provided valuable insights and lessons for the handling of crises in members of currency unions. IMF Management is taking up a number of recommendations from these analyses, including clarifying how guidelines on program design apply to currency union members, establishing a policy on cooperation with regional financing arrangements, and paying greater attention to prioritization of structural reform measures with negative near-term fiscal impacts.

MULTILATERAL DEVELOPMENT BANKS (MDBS)

This section addresses key U.S. policy goals that the MDBs advance and details developments in institutional reforms, priorities, performance, and effectiveness at the MDBs since the previous NAC Report was issued.

U.S. participation in the MDBs (1) fosters U.S. national security by supporting MDB engagement with fragile and conflict-affected states (e.g., Ukraine, Iraq and Afghanistan) and

[5] The PRGT provides concessional assistance to low-income members. It relies on a combination of grant and market-based loan resources, provided by donors and internal IMF resources.

providing assistance that addresses the root causes of instability; (2) promotes U.S. economic growth through exports by helping the MDBs boost demand from emerging markets; (3) responds to global crises, such as the refugee crisis in the Middle East and North Africa, and builds countries' resilience to future crises; and (4) addresses critical global priorities, such as energy security, food security, and environmental degradation.

The MDBs support broad-based and sustainable economic growth and job creation through investments in areas such as infrastructure, health, and education. They also foster critical private sector development and entrepreneurship. MDB concessional lending and grants are an important source of financing for the development needs of fragile and post-conflict states and for combating extreme poverty and hunger. MDB projects promote global stability, prosperity, infrastructure development, and private sector growth in line with the ambitious 2030 Sustainable Development Agenda and the Sustainable Development Goals that world leaders adopted in 2015.

The United States is the largest or joint largest shareholder at all of the MDBs in which it is a member, except the African Development Bank, where the United States is the largest non-African shareholder. This status allows the United States to press MDB management for institutional reforms, financial and political support for major U.S. priorities, and higher standards in the international financial architecture. U.S. contributions to the MDBs leverage additional contributions from other shareholders and the MDBs themselves, providing a level of assistance that is significantly higher than what the United States could achieve bilaterally.

Over the past year, the United States worked to improve performance across all of the MDBs. These efforts included urging the MDBs to make more optimal use of their existing financial resources to expand the level of support available to developing countries and working closely with the MDBs to update policies and practices on evaluation to build a stronger culture of results and accountability. The United States also encouraged stronger attention to fiduciary, environmental, and social standards, and to the necessary resourcing to implement these safeguards.

Below are the major developments for the World Bank, African Development Bank, Asian Development Bank, European Bank for Reconstruction and Development, Inter-American Development Bank, and North American Development Bank.

World Bank

World Bank Performance in 2016: During the World Bank's fiscal year 2016 (covering July 2015 – June 2016), the World Bank committed $64.2 billion in loans, technical assistance, concessional credits, grants, equity investments, and guarantees.

- *The International Bank for Reconstruction and Development (IBRD) approved $29.7 billion in loans and technical assistance to middle-income countries.* Latin America and the Caribbean (27 percent) and Europe and Central Asia (24 percent) received the largest portion of the IBRD's new commitments, followed by East Asia and Pacific (17 percent) and Middle East and North Africa (17 percent).

- *The International Development Association (IDA) committed $16.2 billion in highly concessional credits and grants to the 77 poorest countries.* More than half of IDA's annual commitments ($8.7 billion) went to countries in Sub-Saharan Africa, followed by South Asia (29 percent) and East Asia and Pacific (14 percent).

- *The International Finance Corporation (IFC), the private sector arm of the World Bank, approved $11.1 billion in long-term investments from its own resources.* The IFC mobilized an additional $7.7 billion from other investors for development projects. More than 29 percent of the IFC's projects, accounting for $5.5 billion in long-term investments, went to the world's poorest countries.

- *The Multilateral Investment Guarantee Agency (MIGA) provided a record $4.3 billion in guarantees for political risk insurance and credit enhancement.* Of MIGA's FY 2016 projects, 53 percent were in the poorest countries, with 6 percent of new guarantees supporting fragile and conflict-affected countries.

- *For IBRD and IDA, health and other social services was the sector that received the largest commitment (31 percent), followed by public administration, law, and justice (20 percent) and energy and mining (17 percent).*

- *The World Bank provided notable support in the following areas:* launching a facility that could provide up to $800 million in concessional loans to support Syrian refugees and host communities in Jordan and Lebanon; providing additional "turnaround" support to Guinea-Bissau and Madagascar to support their transitions to functioning states; and approving nearly $1.6 billion for Iraq to support economic stabilization and energy efficiency as it battles ISIL.

Key Institutional Reforms: In 2016, the World Bank advanced several major policy and governance reviews, in addition to carrying out its regular lending activities.

- *IDA Replenishment:* In 2016, IDA donors and Management negotiated the IDA-18 replenishment, which will cover the period from July 2017 to June 2020. The overarching theme of IDA-18 is "Towards 2030: Investing in Growth, Resilience, and Opportunity," which reflects IDA's pivotal role in helping the world's poorest countries achieve the Sustainable Development Goals (SDGs).

  The replenishment is noteworthy because it will lead to a major change in IDA's financial model, as IDA plans to issue debt backed by its equity (e.g., reflows and investments) for the first time. In anticipation of this new model, IDA received a triple-A rating from both Standard and Poor's and Moody's in September 2016. Market borrowing will increase IDA's overall commitment authority by more than 40 percent percent to approximately $75 billion at the same or lower cost to donors.

  By leveraging its equity, IDA will be able to invest more in transformative projects and direct higher levels of concessional assistance to poorer and less creditworthy countries. For example, for IDA-18, IDA Management will double resources for fragile and conflict-affected states, establish a $2 billion set-aside for projects that benefit refugees

and their host communities in IDA countries, significantly increase the set-aside for regional projects, provide an additional $1.3 billion for crisis response, and create a $2.5 billion private sector window that will work with the IFC and MIGA to scale-up private investment in IDA countries. Lastly, IDA will be able to provide increased levels of non-concessional finance to help smooth countries' graduation from IDA and transition to non-concessional development financing.

IDA-18's policy commitments and resource allocation framework include: a special theme on governance, with a focus on strengthening public financial management; mobilizing domestic resources; as well as a heightened focus on private sector development. IDA-18's other special themes include fragility, conflict, and violence; jobs and economic transformation; climate resilient development; and gender equality.

- *Safeguards Review:* The World Bank approved a new set of environmental and social risk management (i.e., "safeguards") policies in 2016, concluding a multi-year process. The safeguards are an essential tool for avoiding or mitigating environmental and social risks and impacts in World Bank-financed projects and are key drivers of project impact, quality, and sustainability. The new Environmental and Social Framework is an integrated approach that improves clarity and coherence, and aims to increase the efficiency and effectiveness of safeguards through risk-based allocations of implementation resources. It expands the World Bank's safeguards into several new important areas and strengthens its approach to social assessments. In addition to updating its policies, the World Bank is working to improve the implementation of safeguards, especially in difficult areas such as resettlement. This includes strengthened project monitoring, as well as implementation support and capacity building for borrowers.

- *Global Crisis Response Platform:* The World Bank established a new Global Crisis Response Platform, which comprises several instruments to allow the World Bank to more effectively address both immediate and protracted crises, such as pandemics, natural disasters or refugees. Initial efforts under the platform have focused on assisting frontline states hosting large numbers of Syrian refugees through a Concessional Financing Facility. As noted above, the IDA-18 replenishment will create a set-aside for IDA countries hosting large numbers of refugees.

- *Shareholding Review:* The World Bank launched a shareholding review in 2015. These reviews provide periodic opportunities to assess whether the World Bank has adequate resources to fulfill its mission and whether shareholding is distributed equitably among members. In 2015, World Bank Governors approved a multi-year roadmap to implement the review with several key milestones. As the first step, in October 2016, World Bank Governors welcomed a shareholding formula that provides a more transparent guide for evaluating the distribution of shareholding and deciding on any potential realignments of IBRD shareholding. The formula serves as a benchmark for each country's level of shareholding. However, the process for bringing countries' actual levels of shareholding more closely in line with the benchmark remains a subject for negotiation.

Concurrently, in 2016, shareholders reached consensus on the World Bank's "Forward Look," which sets forth a strategic vision for the World Bank's role over the next 15 years. The key premise of the Forward Look is that the World Bank's global breadth, country depth, expertise, and public and private sector engagement uniquely position it to address complex development challenges. To stay relevant, the World Bank proposes to deepen its work across several areas, including enhancing its engagement on fragility, conflict, and violence, including support for fragile states and refugees; shifting the IBRD portfolio more towards IBRD-eligible countries with lower incomes; enhancing the World Bank's crisis response toolkit through the Global Crisis Response Platform; strengthening its role in knowledge and evaluation; and increasing private sector mobilization and facilitating public-private partnerships to deliver inclusive economic opportunities.

- *Re-election of President Kim:* The World Bank Board unanimously re-elected Dr. Jim Yong Kim as President of the World Bank for a new five-year term on September 27, 2016, following the nomination of Dr. Kim for a second term by the United States at the beginning of the nomination period in August. Building on the changes made to make the World Bank Presidential selection process more open and transparent, in 2016, the Board published dates for key steps in the nomination and election process, allowed nominations from any shareholder, and required candidates to publish a vision statement and conduct interviews with the Board.

African Development Bank (AfDB)

Performance in 2016:

- *AfDB financing commitments totaled $10.4 billion.* Commitments from the AfDB's non-concessional window were $8.5 billion. Commitments from the concessional window, the African Development Fund (AfDF), were $1.9 billion.

- *Of the total AfDB non-concessional window commitments, sovereign loans and grants accounted for $5.9 billion (69 percent) and private sector loans, investments, and guarantees accounted for $2.6 billion (31 percent).* New approvals continued to reflect the AfDB's selectivity in its choice of project sectors, with over forty percent of financing directed to infrastructure projects (primarily transportation, energy, and water supply and sanition). Other key sectors include finance (e.g., microcredits to small businesses) and agriculture.

- *Distribution of total AfDB commitments by sub-region: West Africa (26 percent); North Africa (26 percent); East Africa (17 percent); multiple sub-regions (17 percent); Central Africa (8 percent); and Southern Africa (6 percent).*

- The AfDB provided notable support in the following areas: $1.8 billion in financing to support transitions in Tunisia, Morocco, and Egypt, with projects focused on governance, financial sector reform, and infrastructure development; $972 million in energy projects, including support to Power Africa projects; and $620 million in financing to fragile and

conflict-affected states, with a particular focus on strengthening governance, combatting corruption, and job creation to reduce migration flows.

AfDF Replenishment: In 2016, donors concluded the fourteenth replenishment of the AfDF (AfDF-14), which covers 2017-2019. Donors pledged $4.8 billion in grant and grant-equivalent contributions for a total replenishment of $5.9 billion, including internally generated resources.

The AfDF-14 policy package builds on reforms introduced under AfDF-13. AfDF-14 will emphasize fragility, providing half its financing to fragile and conflict-affected states. It will also focus on private sector growth, including by providing $270 million to an innovative tool, introduced on a pilot basis during AfDF-13, which reduces the risk of AfDB private sector investments in AfDF countries. With strong support from the United States, AfDF-14 also includes an enhanced focus on results and learning and will continue to allocate resources principally on the basis of a performance-based allocation formula.

Institutional Reforms: The AfDB introduced a number of major insitutional reforms in 2016. Three reforms stand out: (1) the introduction of five new strategic priorities for the AfDB (called the "High 5s") to further its selective focus; (2) the development of a new organizational and business model; and (3) the hiring of a new senior management team.

The High 5 strategic priorities are energy, agriculture, industrialization, regional integration, and quality of life. The AfDB will continue to focus on its comparative advantage in infrastructure and will also integrate the cross-cutting themes of fragility, governance, climate resilience, and gender across these five areas. The new business model is designed to improve the AfDB's efficiency and effectiveness. It realigns the AfDB's organizational structure around the High 5s; decentralizes a larger portion of AfDB staff and operations to the field to increase proximity to clients; and redesigns and streamline policies and processes for more efficient decision-making and a stronger performance-based culture. The United States has worked closely with AfDB Management on the design and ongoing implementation of the new business model, with particular attention to improving performance and results. A new Senior Vice President, six new Vice Presidents, and a number of other senior staff joined the AfDB in 2016. The United States successfully pushed for these appointments to take place on the basis of a competitive and transparent hiring process.

The United States also collaborated with the AfDB on priorities in the energy sector and on combatting illicit financial flows. The AfDB is a core partner with Power Africa. In addition to collaborating on specific projects and business reforms to facilitate investment in the energy sector across Sub-Saharan Africa, the AfDB and Power Africa have initiated regular technical meetings on shared priorities. The AfDB is also a core partner in the Partnership for Illicit Finance (PIF). Established by the United States and Senegal at the U.S.-Africa Leaders Summit in 2014, the PIF seeks to combat illicit finance through the creation and implementation of National Action Plans. These National Action Plans set out specific actions for countries to take to improve transparency, combat corruption and criminal activity, and increase government accountability. In 2016, the AfDB and the United States also collaborated on the development of the AfDB's new illicit finance policy and strategy. The AfDB has committed to supporting PIF action plan implementation through its illicit finance work.

Asian Development Bank (AsDB)

Performance in 2016:

- *Total AsDB financing commitments were $17.5 billion. Commitments from AsDB's non-concessional window were $14.4 billion. Approvals for non-sovereign loans, guarantees, and investments totaled $2.5 billion. The Asian Development Fund (AsDF) committed $3.2 billion in concessional loans, grants, and technical assistance.*

- *Top recipients of AsDB commitments were India (17 percent), China (12 percent), Azerbaijan (10 percent), Indonesia (10 percent), and Pakistan (9 percent).*

- *The AsDB's 2016 commitments largely focused on infrastructure, particularly for energy and transport (49 percent). The remaining commitments included financing for financial management (12 percent), public sector management (11 percent), water and other urban infrastructure (11 percent), agriculture (7 percent), education (4 percent), and health (2 percent).*

- The AsDB provided notable support in the following areas: $2.4 billion supporting water projects like water supply, sanitation, irrigation, and flood management throughout Asia; $375 million for projects to rehabilitate more than 3,000 kilometers (km) of power distribution lines in Azerbaijan and expand the high-voltage transmission network in Pakistan; and $76 million to rehabilitate and upgrade irrigation infrastructure, including watershed management, in Afghanistan

AsDF Replenishment: In 2016, donors concluded the eleventh replenishment of the AsDF (AsDF-12), which covers 2017-2020. Following the merger between the AsDF concessional lending resources and the AsDB's Ordinary Capital Resources (OCR), the AsDF is now a grants-only fund. Donors pledged $2.6 billion, while transfers from the OCR and income from liquidity investment provide another $1.2 billion for a total replenishment of $3.8 billion.

AsDF-12 focuses on strengthening support for fragile and conflict affect states, with a top-up allocation maintained for Afghanistan, and building capacity and resilience of small island states, which will receive significantly higher levels of grant allocations during AsDF-12. AsDF will continue to concentrate its work in infrastructure. Given the high vulnerability of AsDF countries to natural disasters, AsDF-12 will introduce a pool of funding for countries to invest in disaster risk preparedness, which can help reduce the costs of humanitarian assistance when disasters occur.

Key Institutional Reforms: In addition to concluding the AsDF-12 replenishment, the United States focused on several other areas of institutional reform at the AsDB in 2016.

- *Capital Adequacy:* The United States reviewed AsDB's capital adequacy models to ensure any ramp-up in assistance as a result of the merger of the OCR and AsDF lending resources will remain financially sustainable. In particular, the United States has focused

on ensuring that AsDB's lending levels remain in line with the projections that AsDB Management presented to shareholders at the time the merger was approved.

- *Counter-Cyclical Response Facility:* The United States and other shareholders sought to improve the counter-cyclical response modalities that AsDB uses when its developing member countries face crises. AsDB updated its policies to ensure improved engagement and coordination with the IMF and to provide more explicit rules governing the use of crisis response lending modalities.

- *Gender Reforms:* The United States pressed AsDB to strengthen its attention to gender equality in its lending activities and in the institution's own human resource policies and practices. To help improve the quality of AsDB's work environment, especially for female staff, AsDB conducted its first institutional gender assessment through the EDGE (Economic Dividends for Gender Equality) certification program.

- *Election Reforms:* In July 2016, AsDB Governors unanimously re-elected President Takehiko Nakao to a second term. In advance of the election, the United States pursued reforms to make the AsDB's presidential election procedures more open and transparent. For the 2016 election, the AsDB set out a timeframe for the nomination period and the date of the election, required candidates to submit a vision statement to the Board and Governors, and the Board held an interview session with President Nakao in advance of the vote.

European Bank for Reconstruction and Development (EBRD)

Performance in 2016:

- *EBRD investments in 2016 reached $9.9 billion.*

- *Top recipients of investments were Turkey (20 percent), Kazakhstan (11 percent), Poland (8 percent), Egypt (8 percent), and Bulgaria (7 percent).* The EBRD also continued to increase investments in the early (less advanced) transition countries (ETCs), such as Armenia, Georgia, and Moldova. Projects approved for the ETCs in 2016 accounted for 30 percent of the overall number of EBRD projects, with business volume at nearly $1 billion for this group.

- *EBRD business volume in 2016 was concentrated in the following sectors: financial institutions (33 percent), corporate (26 percent), energy (23 percent), and infrastructure (18 percent).*

- The EBRD provided notable support in the following areas: more than $600 million in approvals for Ukraine to support the government's reform efforts; more than $1.4 billion in investments to support transition in Jordan, Egypt, Morocco, and Tunisia; support to Jordan and Turkey to address the Syrian refugee crisis; and the achievement of a major milestone for the safety of the Chernobyl nuclear reactor site with the sliding in place of the new containment structure, the largest moveable land-based structure ever built.

- In response to strong guidance from the United States and other key shareholders, EBRD management has not brought forward any new projects for Russia since July 2014.

Key Institutional Reforms: In response to the Syrian refugee crisis, the EBRD announced a financing package of up to €900 million to support private sector and infrastructure projects in Turkey and Jordan, frontline countries that are hosting millions of Syrian refugees. The EBRD reaffirmed its fundamental mandate to support transition to market economies, and updated its transition concept, further defining the components of a sustainable market economy. The EBRD also launched an Operational Effectiveness and Efficiency program to improve internal processes and reduce costs. In 2016, the EBRD rolled out its Strategy for the Promotion of Gender Equality, focused on access to finance, access to employment and skills, and access to services. In 2016, EBRD Governors elected Suma Chakrabarti for a second term as EBRD President, following an improved presidential election process that increased competitiveness and transparency.

Inter-American Development Bank (IDB)

Performance in 2016:

- *The IDB committed $11.0 billion in loans and grants in 2016 to its 26 borrowing member countries in Latin American and the Caribbean.*

- *The Inter-American Investment Corporation (IIC), the private sector arm of the IDB Group, approved $443 million in loans and equity investments in 2016.* Slightly more than half of IIC projects in 2016 went to the region's small and vulnerable countries. IIC business volume was concentrated in the following clients: financial institutions (41 percent), infrastructure (41 percent), and the corporate sector (18 percent).

- *The Multilateral Investment Fund (MIF) committed $86 million in grants, loans, and equity to strengthen the business environment and benefit poor and low income populations by working directly with businesses, farms, households, and public sector partners.*

- *Top recipients of IDB lending in 2016 were Mexico (21 percent), Brazil (13 percent), Argentina (12 percent), Colombia (10 percent), and Bolivia (7 percent).* Small and vulnerable borrowing countries received 38 percent of new loan approvals.

- *IDB lending was spread across many sectors, with the largest amounts going to reform/modernization of the state (34 percent), infrastructure and energy (30 percent), and social investment (24 percent).*

- The IDB provided notable support in the following areas: $510 million in commitments for the Northern Triangle countries (El Salvador, Guatemala, and Honduras), coupled with advice for the governments on the design of reform programs to address the root causes of migration; $50 million to support Jamaica to strengthen its tax administration

and rationalize public expenditures, building on several years of fiscal support from the IDB in concert with the IMF; and engagement with Caribbean countries, especially those reliant on Petro Caribe (Venezuela's program for subsidized petroleum imports), on diversifying energy supplies

Key Institutional Reforms: The IDB continues to implement the commitments that the United States and other shareholders negotiated in conjunction with the IDB's ninth general capital increase in 2010. IDB is working to strengthen its balance sheet through implementing exposure exchange agreements with the World Bank and African Development Bank, as well as making adjustments to the Grant Resources Facility that will allow the IDB to use its capital more efficiently, while assuring grant resources are available as needed to support Haiti.

- *Merger of IDB's Concessional Window, the Fund for Special Operations (FSO):* The IDB Board of Governors approved the merger of the FSO with the IDB's ordinary capital on September 1, 2016, and the merger took effect on January 1, 2017. The merger will enhance the IDB's ability to provide concessional lending to the poorest and most vulnerable countries in the region without a replenishment from donors. Concessional borrowers will continue to receive the same terms on their borrowing and will be subject to the same performance-based allocation system and debt sustainability framework to determine their level of concessional finance. At the same time, the merger substantially strengthens the IDB's key capital adequacy ratios, bolstering the IDB's ability to support Latin American and Caribbean countries facing strong macroeconomic headwinds.

- *Private Sector Reform:* The newly consolidated Inter-American Investment Corporation (IIC) was launched on January 1, 2016. The United States advocated for improved development effectiveness and greater operational efficiency for the new private sector entity, and is closely monitoring the implementation of the IIC reforms to promote the achievement of those goals. During 2016, IIC consolidated its new management team, created a new development effectiveness tool, strengthened its financial controls, strengthened and reorganized its risk function, and improved its environmental, social, and governance capabilities through staffing and training.

- *Multilateral Investment Fund (MIF):* IDB and IIC Governors approved a third and final replenishment of the MIF to provide resources for 2019 through 2023 during the IDB Annual Meeting in April 2017. The expectation is that the MIF will be funded with internal IDB Group resources after this final replenishment period. As part of the discussions, the MIF has developed a more efficient business model that will cut costs and streamline staffing, and will put increased focus on scaling up and replicating successful projects by other parts of the IDB Group and external MIF partners. The United States successfully pressed for a more sustainable financing model for the MIF, including an increased role in the financing of the MIF from regional borrowing members.

North American Development Bank (NADB)

Performance in 2016:

- *NADB approved $102.4 million in financing in 2016.* This included $97 million in loans, and $3.2 million in grants and technical assistance.

- *The sectoral breakdown of NADB's outstanding portfolio (by volume) at the end of 2016 was wind energy (50 percent), solar energy (21 percent), water and wastewater (12 percent), air quality (7 percent), storm drainage (4 percent), and basic urban infrastructure (3 percent).*

- *At the end of 2016, 56 percent (51 projects) of NADB's outstanding portfolio was in Mexico and 44 percent (20 projects)was in the United States.*

Key Institutional Reforms: In 2016, NADB continued steps to strengthen its financial capacity, including diversifying its portfolio by investing in more sub-sectors of environmental infrastructure, such as desalination plants, urban mass transit, and energy efficiency programs for commercial real estate; and increasing the portion of total project financing mobilized from commercial financiers. Mexico provided its first contribution of $10 million to NADB's general capital increase that the Board approved in 2015.

The NADB and the Border Environment Cooperation Commission (BECC) also continued to prepare for the merger of the two institutions, which the NADB/BECC Board of Directors recommended in a resolution passed in December 2014. NADB and BECC took steps to complete the operational integration, including fully implementing joint project development and technical assistance work, fostering closer staff collaboration, and harmonizing human resources policies. The two institutions work together on common projects and anticipate functioning more efficiently as one institution.

NADB and BECC also enhanced results tracking and reporting, including refining the results measurement system, completing a comprehensive evaluation on the results of NADB and BECC's investments in wastewater treatment in Baja California, and beginning similar work on investments in renewable energy in the United States.

Report on IDA Contribution to Graduation

The U.S. Department of the Treasury presents this report consistent with 22 U.S.C. § 262r-6(b)(2). That section directs the Secretary of the Treasury to report to Congress on how the World Bank's IDA-financed projects "contribute to the eventual graduation of a representative sample of countries from reliance on financing on concessionary terms and international development assistance."

IDA provides highly concessional loans and grants to the poorest countries, with the aspiration that the support will help spur growth and development that ultimately allows countries to graduate from IDA. The United States believes that IDA should direct its scarce concessional resources to the poorest countries that have the most limited access to other sources of finance.

Reviewing the process by which IDA helps its richer, more creditworthy clients sustainably graduate from reliance on concessional resources was an important priority for the IDA-18 replenishment negotiations that occurred in 2016.

The IDA graduation process is normally triggered when a country's per capita income exceeds the "operational" graduation threshold (currently $1,185) for at least two consecutive years and the country is deemed creditworthy enough to receive loans from the World Bank's IBRD. The process involves a phasing out of IDA lending and phasing in of IBRD lending. Before graduation, there is typically an intermediate stage of undetermined length, known as "blend" status, during which countries can access both IDA and IBRD resources. There are currently 18 blend countries: Bolivia, Cabo Verde, Cameroon, Republic of Congo, Dominica, Grenada, Moldova, Mongolia, Nigeria, Pakistan, Papua New Guinea, Sri Lanka, St. Lucia, St. Vincent and the Grenadines, Timor-Leste, Uzbekistan, Vietnam, and Zimbabwe.

IDA's goal is to help countries achieve levels of growth and institutional capacity that allow them to finance their development needs from a mix of non-concessional resources from the public sector, market borrowing, private investment, and their own domestic resources. To date, 35 countries have graduated from IDA. Bolivia, Sri Lanka, and Vietnam will graduate at the beginning of IDA-18 in July 2017. However, since there is a constraint on the amount of IBRD lending they can access, these countries remain eligible for a limited amount of transitional assistance from IDA during IDA-18 to avoid a precipitous drop in development resources. India will complete this transition period and no longer be eligible for IDA transition assistance from the beginning of IDA-18.

As part of the IDA-18 replenishment negotiations, IDA Management commited to make recommendations to improve the management of the "blend" period so as to better prepare countries for graduation from IDA.