

**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,

Section 9006 of the
Consolidated Appropriations Act, 2016

and

Title 22 of U.S. Code Section 262r-6(b)(2)

United States Department of the Treasury
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INTRODUCTION¹

To support our national interests and promote global growth, the United States continues to play an active role in the policies and lending of the international financial institutions (IFIs). The IFIs further U.S. and global security interests and encourage open markets and financial stability. The IFIs help to fight poverty, support robust global growth, 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 in them – except in the African Development Bank, where the United States is the largest non-African shareholder. The United States uses its shareholding, voice on the governing 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 seeks to maintain its leadership position in the IFIs, with the goal of supporting U.S. interests and ensuring the IFIs are responsive to U.S. calls for reform. Throughout 2018, the United States promoted policy reforms across the IFIs to improve their governance, focus them on the core mission of higher median income, make better use of their financial resources, and improve their efficiency while maintaining high fiduciary, social, and environmental standards.

This report covers the period from January 2018 through January 2019 and looks at prospects for the remainder of 2019 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)

The IMF has been operating within a moderating global economic context, with downside risks and uncertainty increasing. To this end, U.S. engagement with the IMF has emphasized the importance of delivering on its core mandate. The United States has pressed for the IMF lending programs to focus on reforms that will boost real median incomes and promote more sustainable,

¹ 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). Section 9006 of the 2016 Consolidated Appropriations Act, 2016 (P.L. 114-113) requires the Secretary of the Treasury to report annually on changes in the IMF's lending, surveillance, and technical assistance policies. 22 USC 262r-6(b)(2) directs the Secretary of the Treasury to report to Congress on how the World Bank's International Development Association-financed projects contribute to the eventual graduation of countries from concessional financial assistance.

private-sector led growth. The United States continues to press the IMF to more forcefully advocate policies to reduce global imbalances, enhance external stability, and increase debt transparency and sustainability. As with any public institution, the IMF should continue to evaluate ways to enhance the efficiency and effectiveness of its operations and maintain budget discipline.

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 subscription² and a contribution to the IMF's primary financial backstop, the New Arrangements to Borrow (NAB). The IMF's fifteenth general review of its overall quota resources is scheduled to conclude no later than the Annual Meetings in October 2019. Treasury opposes a change in quotas, given Treasury's view that the IMF has sufficient resources to draw upon in the event of most crisis scenarios, and post-crisis financial reforms have helped strengthen the overall resiliency of the international monetary system. Treasury will work with IMF management and other shareholders to close the fifteenth review without a quota change in the near term.

Overall IMF resources are set to decline sharply starting in 2020. The NAB, which entered into effect in 1998, is a set of standing borrowing arrangements with 38 financially strong members, including the United States. It provides an important supplement to the IMF's core quota resources in times of global stress. In November 2016, the IMF's Executive Board approved the renewal of the NAB for another five years starting in November 2017. Congressional authorization for U.S. participation in the NAB expires in December 2022, unless renewed. In addition, the IMF has \$440 billion in bilateral borrowing arrangements with other IMF members; these are set to expire by end-2020. The United States will work with IMF management and other shareholders to examine proposals for extending supplemental resources to ensure that the IMF is adequately resourced to carry out its mission.

IMF Financing and Policy Developments in 2018

The IMF plays an important 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 part of the global financial safety net, IMF financing plays an important role in supporting the global 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 governments build capacity to manage their activities more effectively.

At the end of 2018, the IMF had 19 financing arrangements using its general resources for a total of \$179 billion, including three precautionary arrangements totaling \$88 billion. New financing

² 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.

arrangements approved during 2018 include Argentina, Angola, Barbados, Morocco, and Ukraine. The IMF also renewed its precautionary arrangement with the government of Colombia. As of March 2019, Argentina was the only country with an exceptional access program.³ For additional information on exceptional access programs, please see Annex on IMF Exceptional Access Programs.

With regard to the IMF's concessional resources for low-income countries, at the end of 2018 the IMF had 18 financing arrangements in place for a total of \$4.2 billion. During 2018, the IMF Executive Board approved new concessional financing arrangements for Burkina Faso, Malawi, and Sierra Leone.

The IMF employs approximately 2,786 people and has an annual administrative budget of \$1.1 billion. With consistent pressure from the United States, the IMF has maintained a flat real administrative budget for the past 8 years. The IMF has also proposed a flat real budget for the next two years, based on continued reprioritization and increased efficiency.

The IMF reviewed and reformed a number of key policies during 2018 in the areas of lending and surveillance:

- *Fund-supported Programs in Currency Unions.* In February 2018, the IMF Executive Board formalized a set of guidelines for policy assurances the IMF may seek from currency union-level institutions when their cooperation is critical to the success of a Fund-supported program. Policy assurances from the central monetary authority will be limited to actions affecting the specific member's adjustment program, but may involve adjustments in union-wide policy that affect all currency union members if a union-wide policy contributed to the balance of payments problem affecting the program country, or a critical mass of the member countries are facing balance of payments problems. The assurances will be provided voluntarily by the union-level institution, endorsed by the Board, and published as part of the program documents. The United States had long advocated this change as monetary and financial sector policies delegated to the union-level institutions are macro-critical and often necessary for program success.
- *Focus on Governance and Corruption.* In April 2018, the IMF Executive Board adopted a new Framework for Enhanced IMF Engagement in Addressing Governance Vulnerabilities. IMF staff designed the framework in response to Board demand, in particular from the United States, for more direct and consistent engagement on governance and corruption issues, particularly in countries where these problems hamper private sector development and growth. The framework requires the IMF to assess the nature and severity of governance weaknesses – including corruption – on a systematic basis, analyze the economic impact of identified governance weaknesses, institute policy recommendations, and review governance measures that prevent private actors from offering bribes or providing services that enable the proceeds of corrupt acts to be concealed. Through the framework the United States expects the IMF to apply a more

³ Under normal access limits, total program financing from the General Resources Account is limited to no more than 435 percent of quota, and disbursements in any one year may not exceed 145 percent of quota. Financing amounts that exceed normal IMF lending limits are referred to as "exceptional access" programs.

consistent focus on governance and corruption issues in surveillance, programs, and technical assistance.

- *Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT)*. In November 2018, the IMF Executive Board reviewed the IMF’s strategy on AML/CFT surveillance and capacity development activities. The IMF’s multifaceted approach enables the IMF to work with member countries to identify and address issues related to money laundering, terrorist financing, proliferation financing, and broader financial integrity-related issues, including developing and emerging issues such as those related to correspondent banking relationships (CBR) and financial technology (Fintech). The review looked at ways to strengthen the efficiency and impact of the IMF’s AML/CFT work—including in IMF-supported programs, annual surveillance, Financial Sector Assessment Programs, and capacity development activities.
- *Interim Surveillance Review*. In April 2018, the Executive Board discussed the Interim Surveillance Review, which found that IMF surveillance has become more integrated and risk-based. The United States will press for surveillance to be further enhanced as part of the 2020 “Comprehensive Surveillance Review” by refining external sector assessments; sustaining progress on macrofinancial surveillance; and incorporating lessons from pilot efforts, including on macrofinancial, macrostructural, and emerging issues.
- *Capacity Development Strategy*. In November 2018, the IMF concluded its review of the IMF Capacity Development Strategy. A core function of the IMF, capacity development accounts for more than 30 percent of IMF’s budget and includes support to member countries to build the institutions and capacity necessary to formulate and implement sound economic policies. The review aimed to assess progress made in addressing the 2013 recommendations and propose a strategy for the following five years. The IMF strategy recommended clear roles and responsibilities for stakeholders; the strengthening of prioritization and monitoring; the tailoring and modernization of capacity development delivery; improved internal consultation and information sharing; and further progress in external coordination, communication, and dissemination of information.
- *Fiscal Transparency Code*. In January 2019, the IMF integrated a fourth pillar on natural resource revenue management into the Fiscal Transparency Code (FTC) to strengthen data provision for surveillance. The FTC is an international standard for disclosure of public finance information and fiscal transparency. The fourth pillar provides a new framework for resource ownership and extraction, and the collection and utilization of public revenue from natural resource endowments.

IMF Priorities in 2019

The United States has engaged with the IMF on a number of key policy priorities for 2019, including:

- *Comprehensive Compensation and Benefits Review (CCBR)*. In November 2018, the IMF began a comprehensive review of its compensation system, benefit programs, and

allowances. Staff, with assistance from an external consulting company, expect to conduct and complete staff surveys, benchmarking activities, and cost-benefit analyses of current comparators for staff compensation, benefits, and retention. Using this data, IMF staff will present policy proposals for consideration to the Executive Board in mid-2019. The Board will reach agreement on reforms to compensation and benefits by late 2019. The IMF is slated to enact the new compensation and benefits methodology in its FY 2021. The United States will encourage IMF decision makers to adopt these improvements in concert with ongoing HR modernization efforts to create a more effective and efficient institution.

- *Review of Facilities for Low Income Countries.* In 2017, the IMF began a comprehensive review of the facilities available for low income countries (LICs) by evaluating usage patterns, demand, and policies, including a comparison of Poverty Reduction and Growth Trust (PRGT) policies with General Resources Account policies. The IMF Executive Board reviewed staff findings in July 2018 and prioritized the need to update access policies and financing terms, while maintaining adequate safeguards for the resources of the PRGT and the need to explore aspects of the facilities that require additional flexibility to support a diverse set of potential borrowers. The IMF will prepare a second paper with specific proposals for Executive Board review in May 2019.
- *IMF Conditionality Review.* In May 2018, the IMF began a periodic review of program conditionality. IMF staff are reviewing all aspects of program design including program length, performance criteria, structural benchmarks, staff forecasts, and program outcomes – with the goal of improving design ahead of a future crisis. The United States is engaging with staff to press for reforms to enhance the effectiveness of conditionality in promoting growth, market liberalization and higher median income. The United States expects to review IMF proposals in May 2019.
- *Debt Limit Policy.* In 2015, the IMF implemented a set of principles guiding the use of public debt conditionality in IMF-support arrangements. The new policy broadened the policy to all public debt, integrated treatment of external public debt, and linked debt vulnerabilities to the use and specification of debt conditionality. The IMF is reviewing the policy to identify any gaps impeding full realization of policy objectives and its refinement. The Executive Board will discuss the findings in May 2019.
- *Debt Transparency and Sustainability.* The IMF and the World Bank are jointly developing a multi-pronged work program to tackle rising debt levels in low-income countries. This work program will highlight growing debt vulnerabilities, tackle shortcomings in debt data coverage and transparency, and address challenges from the changing creditor landscape. The United States is also engaging with the IMF on a review of Debt Sustainability Framework for Market Access Countries (MAC) to ensure realistic baseline projections, to reduce the need for judgment, and to advocate for transparent and comprehensive debt data; the review will be completed in 2019. In addition, the IMF will conduct reviews of data provided under Article VIII Section 5 (which addresses furnishing of information to the IMF for surveillance purposes) and the Special Data Dissemination Standards in 2020; Treasury will engage with IMF staff in

2019 to urge these reviews to identify ways to improve surveillance frameworks and strengthen the voluntary framework for public disclosure of data.

- *Financial Sector Assessment Program Review.* The IMF conducts mandatory assessments every five years for 29 countries whose financial sectors are assessed to be systemically important and assesses other members' financial sectors on a voluntary basis. These reviews feature in-depth evaluation of resilience and regulation to identify country-specific risks and propose actions to avoid financial crises. The United States will engage with the IMF during the 2019-2020 FSAP Review to make sure the number of systemically important financial countries and the frequency of the mandatory financial sector assessments are appropriate to manage the risks stemming from countries' financial sectors.

Conclusion

The IMF has taken steps over the past year that aim to safeguard IMF resources and modernize program access. Regular reviews and adjustments of IMF policies protect the IMF from incurring losses and protect the United States' financial commitment to the IMF, decreasing the risks to the United States' financial commitments to the IMF. Other activities, such as the External Sector Report, are aimed at promoting sound policies among member countries and thereby safeguarding IMF resources.

MULTILATERAL DEVELOPMENT BANKS (MDBS)

This section addresses key U.S. policy goals advanced by the MDBs 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 can: (1) foster U.S. national security by supporting MDB engagement with fragile and conflict-affected states and providing assistance that addresses the root causes of instability; (2) promote U.S. economic growth through exports by helping the MDBs boost growth in emerging markets; (3) help respond to global crises, such as the refugee crisis in the Middle East and North Africa and natural disasters, and build countries' resilience to future crises; and (4) address global priorities, such as energy security, food security, and environmental degradation.

The MDBs seek to support broad-based and robust economic growth and job creation through investments in areas such as infrastructure, health, and education. They also encourage 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 can promote global stability, prosperity, infrastructure development, good governance, and private sector growth.

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 by driving reforms across all of the MDBs. These efforts included urging the MDBs to focus more on the quality of their project loans rather than the quantity, on helping developing countries get their policy environment right for using private capital inflows effectively, encouraging the MDBs to strengthen incentives for countries to increase their debt management capacity and transparency, and to better focus their support on poorer countries with less access to private capital. In addition, we advocated for the MDBs to implement better frameworks to ensure financial discipline, and we are working closely with the MDBs to update policies and practices on evaluation to build a stronger culture of results and accountability. Finally, we have pushed forward concrete initiatives to improve the coordination of country programs and harmonize best practices across the MDBs.

The United States also continued to encourage stronger attention to fiduciary, transparency, environmental, and social standards, and to the necessary resources to implement these safeguards so that MDBs set the standard for high quality projects. This increases the likelihood of project success, positions U.S. companies and contractors well to compete, and creates an attractive alternative to the lower standards offered by competing financiers. As the United States carries out its duties to review, comment, and vote on MDB projects, it applies relevant legislative mandates and requirements from Congress. Treasury looks forward to engaging with Congress on how to reduce mandates or reports that reduce our influence in the MDBs or that do not achieve the intended policy goal.

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, International Fund for Agricultural Development, and North American Development Bank.

World Bank

Performance in 2018: During the World Bank's fiscal year 2018 (covering July 2017 to June 2018), the World Bank committed \$66.9 billion in loans, technical assistance, concessional credits, grants, equity investments, and guarantees.

- The International Bank for Reconstruction and Development (IBRD) approved \$23 billion in loans and technical assistance to middle-income countries. The Middle East and North Africa (25.8 percent) received the largest portion of the IBRD's new commitments, followed by South Asia (19.5 percent). India, Egypt, and Indonesia were the top three borrowers in FY18.
- The International Development Association (IDA) approved \$24 billion in concessional credits and grants to 75 of the world's poorest countries. Sub-Saharan Africa received over 64 percent (\$15.4 billion) of IDA's annual commitments, followed by South Asia at 26 percent (\$6.2 billion).

- The International Finance Corporation (IFC), the private sector arm of the World Bank, approved \$11.6 billion in long-term investments from its own resources. The IFC mobilized an additional \$11.6 billion from other investors for development projects. Roughly 30 percent of the IFC’s long-term investment commitments and 57 percent of IFC advisory service went to countries eligible for IDA assistance—the world’s poorest countries.
- The Multilateral Investment Guarantee Agency (MIGA) provided a record \$5.3 billion in guarantees for political risk insurance and credit enhancement, which helped finance \$17.9 billion of projects in developing countries. Of MIGA’s FY 2018 projects, 39 percent were in IDA eligible countries, with 15 percent of new guarantees supporting fragile and conflict-affected countries.

Key Institutional Reforms: In 2018, the World Bank implemented several key initiatives, in addition to carrying out its regular lending activities.

- *World Bank Capital Increase and Reform Package.* The World Bank concluded a review of its capital adequacy and financial capacity to support its development priorities, with shareholders supporting a capital increase package consisting of a \$60.1 billion capital increase for the IBRD, of which \$7.5 billion will be paid-in, and a \$5.5 billion paid-in capital increase for the IFC.

As part of the capital increase, shareholders, with leadership from the United States, and World Bank Management negotiated a set of transformational reforms that closely align with U.S. national security, foreign policy, and economic priorities. The reforms will make the World Bank more financially disciplined, focus its operations in countries that have less access to other sources of finance, and ensure it operates more efficiently. In particular, the IBRD will adopt a financial sustainability framework to restrict annual lending commitments to a level that can be sustained over a rolling ten-year horizon through organic capital accumulation. This framework will also include a capital buffer to allow the IBRD to respond to crises without jeopardizing its financial position. The framework increases the transparency and financial discipline of the IBRD and significantly lessens the likelihood of a future capital increase. Other reforms adopted as part of the package include: 1) directing more funding to countries where scarce development resources are needed most, by increasing the share of annual lending to countries below the IBRD’s graduation income threshold; 2) adopting differentiated loan pricing, with higher prices for better off, more credit-worthy countries; 3) implementing the IBRD’s graduation policy more robustly; and 4) introducing constraints on World Bank staff salaries, which are the largest driver of increases in the administrative budget. These reforms will increase the performance of the World Bank and help ensure a more efficient use of IBRD funds, important for a public institution with the purpose of eliminating global poverty.

- *The Accountability Agenda and the Implementation of the Environmental and Social Framework.* The World Bank’s environmental and social safeguards are an essential tool for avoiding or mitigating risks and negative impacts in World Bank-financed projects,

and the United States has continued to advocate for those strong policies. In 2018, the World Bank Management began implementation of its new set of safeguards, called the Environmental and Social Framework (ESF). The ESF expands the World Bank's safeguards into several new important areas and strengthens its approach to social assessments. In order to implement the ESF, the World Bank developed guidance notes for World Bank staff and government officials in client countries, and the United States provided considerable input on those guidance notes. In those rare instances that a project does cause harm or does not follow Bank policies, it is important that there is accountability. In 2018, the World Bank further considered how to improve the capacity of the Inspection Panel, which is an independent body that investigates projects that are alleged to cause harm and that have not followed Bank policies.

- *Women Entrepreneurs Finance Initiative (We-Fi)*. In 2018, donor countries launched a new facility dedicated to expanding access to financial services for women entrepreneurs and women-led small and medium enterprises (SMEs) in developing countries. The multi-donor facility currently has \$348 million in donor commitments provided by 14 countries, including the United States. The World Bank serves as Trustee and Secretariat of the facility and projects are implemented by the World Bank and other MDBs. The facility incorporates many of the principles of the World Bank's Gender Equality Strategy, which was approved in 2015, and aims to reduce disparities in access to professional opportunities and ownership of assets and increase women's voice and agency. The We-Fi Governing Committee, currently chaired by the United States, approved the first round of proposals in 2018 for \$120 million in funding. The initial round of grant allocations mobilized over \$1.6 billion in additional funding, exceeding the original target for the entire facility of mobilizing \$1 billion over five years. The Governing Committee will allocate a second tranche of \$120 million of funding in April 2019.
- *IDA-18 Replenishment*. In 2016, IDA donors and Management negotiated the IDA-18 replenishment, which covers the period from July 2017 to June 2020. To implement commitments made for IDA-18, IDA Management has begun to double resources for fragile and conflict-affected (FCV) states (including increasing staffing in FCV countries), designed and begun implementation of projects that benefit refugees and their host communities in IDA countries, and undertaken its first issuance of debt backed by its equity (e.g., reflows and investments) to raise capital from the market. The ability to borrow from the market will increase IDA's overall commitment authority by more than 40 percent to approximately \$75 billion at the same or lower cost to donors.
- *"IFC 3.0" Strategic Approach*. IFC is in its second year of implementing a new strategic approach that seeks to develop and expand private markets, with an increased focus on low-income countries and FCV states. As part of this approach, IFC has strengthened its diagnostic tools to help identify obstacles to private investment, and collaborated more closely with the World Bank to address these obstacles. IFC is improving its development impact assessments to ensure strong results from IFC projects, and developing more blended finance instruments to mobilize greater private investment in risky environments. IFC is also working to expand the use of the IDA Private Sector

Window (PSW) to finance bankable projects with high development impact in the poorest countries.

2019 Priorities: Key U.S. priorities for 2019 are: (1) ensuring continued U.S. leadership at the World Bank Group by supporting the U.S. candidate for President in advance of his selection on April 5, 2019; (2) securing the implementation of policy reforms as part of the World Bank capital increase and reform package; (3) engaging in the replenishment negotiations for IDA-19 (2020 to 2023) to ensure U.S. policy priorities are included, including an increased focus on rising debt levels of low-income countries; (4) continuing to advocate for our national security strategic priorities, including support for fragile and conflict affected states; (5) guaranteeing the implementation of high-quality environmental and social safeguards; (6) reviewing the IFC's independent accountability mechanism to ensure that its governance structure allows it to carry out its work satisfactorily; (7) modernizing the independent accountability mechanism for the World Bank to ensure that communities have a strong voice if the World Bank does not follow its own rules and causes harm; and (8) building on the efforts of the Gender-Based Violence Task Force and supporting efforts of the World Bank to have stronger recourse for the rare instances in which projects cause grave harm, such as gender based violence.

African Development Bank (AfDB)

Performance in 2018:

- AfDB financing approvals totaled \$8.9 billion. Approvals from the AfDB's non-concessional window were \$7.3 billion. Approvals from the concessional window, the African Development Fund (AfDF), were \$1.8 billion.
- Of the total AfDB non-concessional window approvals, sovereign loans and grants accounted for \$4.9 billion (67 percent) and private sector loans, investments, and guarantees accounted for \$2.4 billion (33 percent). Forty-eight percent of new AfDB financing was for infrastructure projects (primarily transportation, energy, and water supply and sanitation). Other key sectors include finance (including lines of credit to local financial institutions for on-lending to small and micro businesses) and agriculture.
- Distribution of total AfDB approvals by sub-region: West Africa (33 percent); Central Africa (9 percent); East Africa (18 percent); North Africa (15 percent); Southern Africa (12 percent); and multiple sub-regions (13 percent).
- The AfDB provided financing for critical infrastructure projects across the continent – infrastructure that will support private sector development, increased trade opportunities, and regional integration. The U.S. supports these key investments as a foundation for inclusive and sustainable – private sector-led – economic growth in Africa.

Key Institutional Reforms: In 2018, the AfDB continued implementing a set of institutional reforms designed to improve its efficiency and effectiveness. This reform agenda has three components: (1) realigning the Bank's organizational structure around its five strategic priorities (energy, agriculture, industrialization, regional integration, and quality of life); (2) decentralizing

staff and business operations to the field to improve project coordination and oversight; and (3) streamlining institutional policies and processes and placing an increased emphasis on results. The AfDB is making some progress implementing the reforms, including instituting a new organizational structure, reducing the staff vacancy rate to 13%, building staff capacity in the field, and developing a new institutional results management framework, which includes approximately 100 indicators measuring development impact (e.g., jobs created) and institutional performance (e.g., efficiency ratios). The AfDB also developed a quality assurance implementation plan to improve project quality. The United States continues to work closely with AfDB Management on reform implementation, with particular attention to ensuring robust institutional oversight and accountability mechanisms and a more solid results framework.

2019 Priorities: Key U.S. priorities for the AfDB in 2019 include: (1) supporting effective implementation of critical elements of the Bank’s reform agenda, including filling essential positions, particularly within the oversight and accountability functions, with qualified staff; (2) improving implementation of internal audit and independent evaluation recommendations; (3) strengthening project quality and policy dialogue by following through on the quality assurance action plan; (4) promoting financial sustainability through highly selective lending, with a particular focus on infrastructure; (5) identifying a robust set of institutional and financial policy commitments in the AfDB capital negotiations, which began in late 2018; (6) improving the delivery of AfDF resources and narrowing the AfDF’s strategic focus around high-quality, sustainable infrastructure investments in low-income countries in the negotiations for the fifteenth replenishment of the African Development Fund (AfDF-15); (7) enhancing collaboration between the AfDB and U.S. agencies such as USAID and MCC; and (8) encouraging the AfDB to continue building its capacity to promote African private sector growth.

Asian Development Bank (AsDB)

Performance in 2018:

- Total AsDB financing commitments were \$21.6 billion. Sovereign commitments from AsDB’s non-concessional Ordinary Capital Resources (OCR) were \$13.2 billion, and concessional loans were \$3.9 billion. Commitments for non-sovereign loans, guarantees, and investments totaled \$3.1 billion. Commitments for grants from the Asian Development Fund (AsDF) totaled \$1.4 billion. In addition to these financing commitments, technical assistance totaled \$241 million.
- Top recipients of AsDB funding were India (16 percent), China (12 percent), Bangladesh (10 percent), Indonesia (10 percent), and the Philippines (6 percent).
- The AsDB’s 2018 commitments largely focused on infrastructure, particularly for energy (24 percent) and transport (23 percent), with an increased emphasis on agriculture (11 percent) compared to previous years. The remaining approvals included financing for public sector management (11 percent), water and other urban infrastructure services (10 percent), finance sector development (9 percent), education (8 percent), industry and trade (3 percent), and health (2 percent).

- The AsDB provided notable support in the following areas, among others: a \$300 million loan to support ongoing reform efforts in Uzbekistan across a wide array of industries; a \$75 million grant to Afghanistan to support horticulture value chain development; and \$100 million in grants to Bangladesh to support basic infrastructure and services for displaced Rohingya. AsDF grants are provided to AsDB's poorest and most vulnerable members to fund development projects across sectors.

Key Institutional Reforms: The United States focused on several areas of institutional reform at the AsDB in 2018. The United States worked with the AsDB and other shareholders to develop and approve a new long-term institutional strategy, Strategy 2030. Strategy 2030 incorporates U.S. priorities such as expanding AsDB's private sector operations in new and frontier markets, including challenging markets such as fragile and conflict-affected states and small island developing states, in addition to emphasizing knowledge and capacity building to strengthen AsDB's role as a knowledge provider and hub of development expertise. The United States is working closely with AsDB to operationalize the Strategy 2030 priorities.

In November 2018, the AsDB Board, with strong U.S. support, approved a proposed increase in the base allocation of Asian Development Fund (AsDF)-eligible countries. The base allocation for AsDF countries will rise from \$6 million to \$13 million for 2019 and 2020. Given development needs and capacity constraints, small states, including Pacific Island states, are especially vulnerable to unfavorable and non-transparent lending, which do not contribute meaningfully to development. An increased base allocation benefits the smallest, poorest countries the most by expanding the pool of available grant financing.

The United States continues to closely monitor AsDB's capital adequacy models to ensure that the ramp-up in assistance as a result of the merger of the OCR and AsDF lending resources in 2017 will remain financially sustainable. The United States also secured commitments from AsDB to examine the issue of differentiated pricing for upper middle income countries and commit to improving the application of its graduation policy. AsDB has taken a promising initial step toward better implementation of the graduation policy by updating its template for Country Partnership Strategies to include a systematic analysis of graduation readiness.

2019 Priorities: Key U.S. priorities for the AsDB in 2019 include: (1) monitoring the operational rollout of Strategy 2030; (2) holding AsDB to its commitment to develop concrete proposals for differentiated pricing to strengthen the institution's financial sustainability and focus its operations on better supporting the poorest and most vulnerable countries; (3) deepening institutional capacity to ensure that AsDB can effectively utilize its greater financial capacity following the merger of OCR and AsDF lending resources, particularly in areas such as expanding nonsovereign operations in frontier markets; (4) demonstrating U.S. leadership in laying out a vision for the future of the AsDF and grant-based development assistance in Asia and the Pacific; (5) undertaking human resources reforms to boost staff morale and recruit additional qualified U.S. citizens, build expertise in key departments, and attract and retain more female staff; (6) reviewing and updating AsDB's compensation methodology with an overarching goal of containing excessive salary growth and strengthening the linkage between

performance and salary, including through merit-based hiring and promotion; and (7) supporting efforts of the AsDB to update and modernize its environmental and social safeguard policies.

European Bank for Reconstruction and Development (EBRD)

Performance in 2018:

- EBRD investments in 2018 were \$11.2 billion.
- The top recipients of investments were Egypt (12 percent), Turkey (11 percent), Greece (9 percent), Ukraine (6 percent), and Poland (6 percent).
- EBRD business volume in 2018 was concentrated in the following sectors: financial institutions (34 percent); infrastructure (20 percent); industry, commerce, and agribusiness (23 percent); and energy (23 percent).
- The EBRD provided more than 19,000 loans to women-owned small businesses, and financed consultancy services for more than 500 companies with female directors. It provided \$640 million in commitments for Ukraine to support the government's reform efforts. It signed its first projects in Lebanon and the West Bank and Gaza, and provided more than \$2.3 billion in investments to support transition in Jordan, Egypt, Morocco, Lebanon, and Tunisia. It also continued assistance to Jordan to address the Syrian refugee crisis, including by investing in projects aimed at improving solid waste services in Amman.
- 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 2018 and early 2019, the United States pursued key objectives to strengthen the EBRD's Environmental and Social Policy, Public Complaint Mechanism, and Public Information Policy. Reviews of all three policies are ongoing and will be considered by the Board in 2019. We also continued to push the EBRD to take additional measures to reduce costs. The EBRD continued to expand its global membership, as India became a non-recipient member country. Finally, the EBRD Board approved a new Energy Sector Strategy for 2019-2023.

2019 Priorities: Key U.S. priorities for the EBRD in 2019 include: (1) developing a new Strategic and Capital framework for the years 2021-25 that includes a workable graduation framework for countries that are advanced in their transitions to sustainable market economies and ensures that the EBRD reserves sufficient capital as a crisis buffer; (2) pushing EBRD Management to strengthen measures to control costs, making use of the full range of measures, including limiting growth in staff compensation; (3) achieving U.S. governance objectives through the ongoing reviews of the EBRD's Environmental and Social Policy, Public Complaint Mechanism, and Public Information Policy; (4) laying the groundwork for the selection of a new President in an open, transparent process in 2020; (5) providing continued assistance to Ukraine

in support of its reform efforts; and (6) ensuring the EBRD remains focused on its core mandate to support private enterprise in transition economies.

Inter-American Development Bank (IDB)

Performance in 2018:

- The IDB approved \$14.2 billion in loans and grants in 2018 to its 26 borrowing member countries in Latin American and the Caribbean.
- Top recipients of IDB public sector lending in 2018 were Brazil (18 percent), Argentina (15 percent), Mexico (10 percent), Ecuador (8 percent) and Colombia (8 percent). Small and vulnerable borrowing countries received 42 percent of new loan approvals.
- IDB lending was spread across many sectors, with the largest amounts going to infrastructure and energy (38 percent), reform/modernization of the state (17 percent), social sector (14 percent), and financial markets development (12 percent).
- IDB Invest (also known as the Inter-American Investment Corporation), the arm of the IDB Group that solely focuses on the private sector, originated \$4 billion in loans and equity investments in 2018.⁴ The investments were relatively evenly distributed across the following areas: infrastructure (27 percent), trade finance (26 percent), corporates (24 percent), and financial institutions (23 percent). Nearly half of lending (45 percent) went to the region's small and vulnerable countries, exceeding IDB Invest's internal target.
- IDB Lab (also known as the Multilateral Investment Fund, or MIF) approved \$68.5 million in grants, loans, and equity to poor and low income populations by working directly with businesses, farms, and non-governmental organizations. To emphasize its focus on promoting innovation and using a technology as tool for development impact, the MIF adopted IDB Lab as its new trade name. IDB Lab's mission is to pilot new approaches to private sector development with a special emphasis on small and medium sized enterprises. Within the IDB Group, the IDB Lab's role is to serve a riskier, smaller client segment than the IDB or IDB Invest.

Key Institutional Reforms: In 2018, IDB Invest consolidated its reform agenda by establishing a field presence in 25 of 26 borrowing countries, increasing loan approval volume by 26 percent over 2017, exceeding its targets for loan development impact and lending to small and vulnerable countries, and improving its budget execution. IDB Invest remains well-capitalized with robust liquidity, which will support future growth of the loan portfolio. The IDB undertook an Update to its Institutional Strategy for the years 2020-2023, which will be submitted to Governors for a vote in 2019. Management initiated a revision of the IDB and IDB Invest environment and social safeguards policies and creation of a formal evaluation policy for the

⁴ Of this \$4 billion, \$1.3 billion was financed by IDB Invest's balance sheet and \$2.7 billion financed by the IDB's balance sheet. IDB Invest originates and manages all IDB Group private sector investments; however, some of these investments are currently financed by the IDB's balance sheet during a transition period running through 2022.

IDB Group. President Moreno also appointed Brian O’Neill, an American, as IDB’s new Executive Vice President.

2019 Priorities: Key U.S. priorities for the IDB Group include: (1) ensuring that the IDB is prepared to respond to strategic developments, potentially including favorable conditions to resume assistance to Venezuela; (2) collaborating closely with the IDB and other partners to promote reforms needed to improve conditions in the Northern Triangle countries of Guatemala, Honduras, and El Salvador; (3) taking the opportunity provided by a new director for the IDB’s independent evaluation office (OVE) to further strengthen the role of evaluation and learning at the IDB, including through a new evaluations policy; (4) updating the environment and social safeguard policies of IDB and IDB Invest; (5) preparing the 2020-2022 business plan for IDB Invest to continue the institution’s growth and achievement of its mandates; (6) approving and implementing the Update to the Institutional Strategy for the years 2020-2023; and (7) continuing to enhance and refine the IDB’s approach to facilitate private sector growth and catalyze private investment in the region, including infrastructure investment.

International Fund for Agricultural Development (IFAD)

Performance in 2018:

- In 2018, IFAD approved \$1.14 billion for new projects and \$67.8 million for grants under IFAD’s global, regional, and country grant program.
- The regional distribution of IFAD approvals in 2018 was: Asia and the Pacific (37 percent); Western and Central Africa (32.8 percent); Eastern and Southern Africa (19.8 percent); Latin America and the Caribbean (6.8 percent); and Near East, North Africa, and Europe (3.6 percent).
- IFAD’s current portfolio covered a range of sectors at end-2018, including agriculture and natural resource management (34 percent of IFAD financing), market and related infrastructure (14 percent), rural financial services (19 percent), community-driven and human development (7 percent), policy and institutional support (8 percent), and support for small and micro enterprises (6 percent). A variety of other efforts, including disaster mitigation and monitoring and evaluation, accounted for about 13 percent of IFAD funding.

Key Institutional Reforms: IFAD’s Management is taking steps to enhance IFAD’s efficiency and impact. In 2019, the first year of the IFAD-11 replenishment period (2019-2021), IFAD plans to deliver a program of loans and grants of \$1.76 billion, its largest ever. IFAD accelerated its decentralization of operations to the field, and is implementing new processes to shorten project delivery time, speed up disbursements, and improve overall results.

In its 2018 report, IFAD’s Office of Independent Evaluation (IOE) found good performance in overall project achievement, along with some areas for improvement. The IOE noted that IFAD’s performance has shown a positive trend since 2009, although performance plateaued and fell in some areas during the 2014-2016 review period. Still, IFAD’s project performance continues to be comparable to that of the agricultural sector portfolio of the World Bank. From

2014-2016, 81 percent of operations rated moderately satisfactory or better in overall achievement. The IOE also highlighted the need for IFAD to revise its targeting policy and develop robust targeting strategies, establish monitoring and evaluation systems able to capture data focused on IFAD's target groups, and design exit strategies that include and ensure the participation of target groups.

2019 Priorities: Key U.S. priorities for IFAD in 2019 include: (1) supporting measures, projects, and programs that will further U.S. food security priorities, and engaging with IFAD in a manner that enhances IFAD's effectiveness and delivers results; and (2) working with IFAD Management and other member states to strengthen IFAD's impact and its ability to alleviate rural poverty in the poorest countries.

North American Development Bank (NADB)

Performance in 2018:

- NADB approved \$138.1 million in financing in 2018. This included \$131.7 million in loans, \$4.1 million in grants, and \$2.3 million in technical assistance.
- The sectoral breakdown of NADB's outstanding portfolio (by volume) at the end of 2018 was wind energy (50 percent), solar energy (24 percent), water and wastewater (12 percent), air quality (10 percent), basic urban infrastructure (3 percent), and storm drainage (1 percent).
- At the end of 2018, 73 percent (53 projects) of NADB's outstanding portfolio was in Mexico, and 27 percent (16 projects) was in the United States.

Key Institutional Reforms: In 2018, NADB continued steps to carefully manage available capital to protect its credit rating, including mitigating risk by limiting concentration in specific project sectors and decreasing average loan size, while still maintaining technical assistance and advisory services to communities in need. NADB also strengthened its financial capacity by boosting non-interest income such as commitment, advisory, trust, and administrative fees. Credit rating agencies have recognized NADB's prudent stewardship of its loan portfolio and financial resources by affirming NADB's credit rating in spite of the unique challenges the institution faces.

Treasury and our fellow U.S. Board members, our Mexican Board counterparts, and NADB Management initiated a strategic planning exercise to develop a plan for NADB's core and emerging sectors over the next five years that matches NADB's comparative advantage with the needs of border communities. This strategic plan will identify new priority environmental infrastructure sectors within the bank's mission that require NADB resources to catalyze private investment, and it will further enhance NADB's results measurement capabilities.

2019 Priorities: In 2019, key priorities for NADB are: (1) continued efforts to strengthen the NADB's capital position, including securing Congressional authorization to subscribe to additional paid-in shares by contributing \$10 million in funds appropriated in the FY 2016

appropriations act; (2) completing a strategic plan for the NADB's core and emerging sectors over the next five years, including continuing to build results measurement and evaluation capabilities and focusing on more economically impactful projects that fit NADB's mission and require NADB resources to catalyze private investment; (3) assessing whether NADB has the right financial tools to implement the strategic plan; and (4) monitoring the performance of the Chief Environmental Officer position, created following the merger of the Border Environmental Cooperation Commission into the NADB in 2017, and the implementation of the NADB's environmental mandate.

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 International Development Association (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 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, facilitating graduation 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 gross national income exceeds the “operational” graduation threshold (\$1,145 for World Bank fiscal year 2019) 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 phasing out IDA lending and phasing in IBRD lending. Before a country fully graduates, there is typically a transitional stage of undetermined length, known as “blend” status, during which countries can access both IDA and IBRD resources. There are currently 16 blend countries: Cabo Verde, Cameroon, Republic of Congo, Dominica, Grenada, Kenya, Moldova, Mongolia, Nigeria, Pakistan, Papua New Guinea, St. Lucia, St. Vincent and the Grenadines, Timor-Leste, Uzbekistan, and Zimbabwe. While eligible for blend status, Zimbabwe does not currently receive IDA or IBRD financing due to protracted non-accrual status.

To date, 35 countries have graduated from IDA. Bolivia, Sri Lanka, and Vietnam graduated in July 2017 at the beginning of the IDA-18 period. These countries remain eligible for a limited amount of transitional assistance from IDA during IDA-18, though this need has been greatly reduced by the IBRD capital package commitment to fully replace IDA financing for recent graduates. India completed this transition period and is no longer eligible for IDA transition assistance as of the beginning of IDA-18.

IDA donors and recipients will continue to discuss improving the management of the “blend” period so as to better prepare countries for graduation from IDA during the IDA-19 replenishment discussions. IDA donors and the World Bank Board have refined the criteria around IDA's small islands exception, delineating a clearer path for small island states to transition to blend status and eventual graduation from IDA. During the IDA-19 negotiations, donors will receive updates from World Bank Management on potential graduation by Moldova and Mongolia.

Annex on IMF Exceptional Access Programs

Under normal access limits, total IMF program financing is limited to no more than 435 percent of quota, and disbursements in any one year may not exceed 145 percent of quota. Financing amounts that exceed normal lending limits are referred to as “exceptional access” programs. As of March 2019, Argentina is the only country with an exceptional access program. In the event that a new exceptional access program comes before the IMF Executive Board for approval, Treasury is required to submit a report to Congress in accordance with section 9004 of the Consolidated Appropriations Act, 2016. (In June 2018, Treasury submitted a report to Congress on Argentina’s exceptional access program describing the size and tenor of the program as well as a debt sustainability analysis. In September 2018, Treasury submitted a supplement report noting that the IMF Executive Board would consider an augmentation to Argentina’s exceptional access program.)

In June 2018, the IMF Executive Board approved a three-year Stand-By Arrangement (SBA) for Argentina in the amount of SDR 35.4 billion or approximately \$50 billion (1,110 percent of Argentina’s quota). In August 2018, emerging market volatility and domestic issues drove rapid depreciation of the peso, and caused Argentina to miss several program targets. In October 2018, the IMF Executive Board approved an augmentation of the SBA, increasing Argentina’s total access to about \$57 billion (1,277 percent of quota), and approved some modifications to program conditions so as to strengthen the program. The program’s objectives are to bolster market confidence and reduce Argentina’s balance of payments vulnerabilities to allow for greater economic growth and investment. The program is focused on fiscal adjustments combined with protections for vulnerable populations, reducing inflation, increasing the independence of the central bank to improve credibility, and a flexible exchange rate regime with intervention to limit market disruption.