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
August 2020

INTRODUCTION[1]

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 pandemics, natural disasters, 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 all of these institutions except 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 2019, the United States promoted policy reforms across the IFIs to improve their governance, focus them on the core missions of poverty reduction and inclusive growth, 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 2019 to January 2020 and looks at prospects for the remainder of 2020—during which the IFIs will be focused on responding to the global COVID-19 crisis. This report covers the following IFIs: 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)

U.S. engagement with the IMF has emphasized the importance of delivering on its core mandate. The United States has pressed for IMF lending programs to focus on reforms that will boost real median incomes and promote more sustainable, private-sector led growth. The United States

[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.

also continues to press the IMF to more forcefully advocate for policies to reduce global imbalances, enhance external stability, and increase debt transparency and sustainability. In 2019, the United States also helped secure Executive Board approval for a number of concrete reforms to enhance the efficiency and effectiveness of the IMF's operations and to help maintain budget discipline in future years.

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. The United States participates in the IMF financially through a quota subscription[2] and a contribution to the IMF's primary financial backstop, the New Arrangements to Borrow (NAB). The United States has a voting share of 16.5% and is the only IMF member country with the ability to veto certain major institutional decisions.

In 2019, the United States joined other key countries and IMF leadership in advancing a package of actions on IMF resources and reforms designed to strengthen and define the IMF's role within the international financial system. In January 2020, the IMF Executive Board approved a package to maintain overall IMF resources at roughly existing levels of $1.4 trillion, including by: (1) concluding the IMF's current general review of quotas without changes to existing member quota subscriptions; (2) expanding the size of the NAB from $250 billion to $500 billion and renewing the NAB through 2025; (3) reducing the size of the IMF's current bilateral borrowing arrangements; and (4) preserving U.S. veto power over the IMF's emergency sources of lending. This resource package was accompanied by a series of IMF reforms, including modernization of IMF staff compensation and benefits (approved by the Executive Board in December 2019), reforms to streamline lending conditions, and measures to enhance debt transparency and sustainability.

As other countries and the IFIs began to respond to the pandemic that spread throughout the world in early 2020, the U.S. Congress authorized the extension of U.S. participation in the NAB until December 31, 2025, as well as an increase of U.S. participation in the NAB from approximately $39 billion to approximately $78 billion. The increase in U.S. participation in the NAB is currently scheduled to become effective in January 2021, pending domestic approval from 85% of NAB participants and consent by each NAB participant to the change in its credit commitment.

In March 2020, the IMF Executive Board also approved the framework to guide the IMF's negotiations on the 2020 bilateral borrowing agreements (BBA), which are set to replace the 2016 BBAs effective January 1, 2021. Under the new agreements, BBA resources will decline by an amount commensurate to the increase in NAB resources, maintaining overall IMF resources around current levels. The United States does not participate in a BBA with the IMF.

---

[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.

IMF Financing and Policy Developments in 2019

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—by preventing and reducing the severity of crises abroad. The IMF complements its financing with expert analysis and technical advice and helps governments build capacity to improve the efficiency and effectiveness of policies, including domestic revenue mobilization, debt management, monetary policy operations, and the design and implementation of AML/CFT policies.

At the end of 2019, the IMF had 22 financing arrangements with member countries using its general resources (quota resources) for a total of $160 billion, including four precautionary arrangements totaling $76 billion. New financing arrangements approved during 2019 include Armenia, Ecuador, Equatorial Guinea, Ethiopia, and Pakistan, while completed or expired programs include Egypt, Iraq, and Jamaica. The IMF also renewed its precautionary arrangement with the government of Mexico. As of July 2020, Argentina and Egypt were the only countries with exceptional access programs.[3] For additional information on exceptional access programs, please see the Annex on IMF Exceptional Access Programs.

With regard to the IMF's concessional resources for low-income countries, at the end of 2019 the IMF had 20 financing arrangements in place for a total of $5.9 billion.[4] During 2019, the IMF Executive Board approved new concessional financing arrangements for the Central African Republic, Ethiopia, Honduras, Liberia, Mali, the Republic of the Congo, and Sao Tome and Principe, while completed or expired programs included Afghanistan, the Central African Republic, Ghana, and Guinea-Bissau.

The IMF employs approximately 2,768 people and has an annual administrative budget of $1.2 billion. With consistent support 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 fiscal years, based on continued reprioritization and increased efficiency.

The IMF reviewed and reformed a number of key policies during 2019 in the areas of lending and surveillance:

- *Comprehensive Compensation and Benefits Review (CCBR).* In November 2018, the IMF began a comprehensive review of its compensation system, benefit programs, and allowances. During 2019, the United States successfully worked with the IMF to reform

---

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

[4] Concessional resources are financed not through quotas but rather loans from countries to the Poverty Reduction and Growth Trust.

its outdated salary system, streamline benefits for expatriate staff, modernize childcare and parental leave benefits, and reform the pension system to improve sustainability. We expect the reform package to save the IMF about $10.5 million annually once it fully implements the reforms. The IMF will enact these reforms over the course of its FY 2021 (May 2020-April 2021).

- *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. In May 2019, the IMF Executive Board reviewed staff proposals to update access policies and financing terms, while maintaining adequate safeguards for the resources of the PRGT and aspects of the facilities that require additional flexibility to support a diverse set of potential borrowers. The reforms allowed the IMF to increase LIC program size (commensurate with growth in the size of LIC GDP) and better target its concessional financing resources to LICs while establishing important safeguards on debt and promoting debt sustainability.

- *IMF Conditionality Review*. In May 2019, the Executive Board approved a set of reforms to IMF program conditionality. The reforms included greater scrutiny of and realism in growth projections, stronger attention to growth-friendly fiscal measures, increased use of structural conditions to foster debt transparency of off-budget or contingent debt liabilities, and better prioritization and parsimony of structural benchmarks.

- *Debt Transparency and Sustainability*. The IMF and the World Bank are jointly implementing a multi-pronged work program to confront growing debt vulnerabilities, tackle shortcomings in debt data coverage and transparency, and address challenges from the changing creditor landscape in LICs. As a part of this program, the IMF and World Bank successfully implemented the revised Low-Income Country Debt Sustainability Framework, which included broader debt coverage for several countries, and supported countries' efforts to improve the quality and dissemination of public debt statistics. The United States continues to regularly engage with the IMF on its review of debt trends in LICs. The United States also encourages those countries to improve debt management capacity and transparency to allow for comprehensive coverage of public debt data, including state-owned enterprise debt, collateralized lending, and contingent liabilities.

IMF COVID-19 Priorities in 2020

The IMF has taken rapid measures to enhance its ability to provide emergency assistance to LICs and emerging markets in response to the COVID-19 crisis. IMF assistance will take the form of financial support, policy advice, and capacity development. Treasury is engaging with IMF staff to direct effective, targeted assistance to those countries most in need. The IMF has enhanced its toolkit in the following ways:

- *RFI/RCF expansions*: Financial support has primarily been provided through the IMF's emergency lending programs – its Rapid Financing Instrument (RFI) and concessional

Rapid Credit Facility (RCF) for low income countries, as well as through augmentation and front-loading of its existing lending programs. The IMF Executive Board has temporarily doubled the annual amount of funds that members can tap from the RFI and RCF to 100% of quota. IMF staff project that demand for the RFI and RCF will be more than $90 billion over the next six months. While resources from the General Resources Account (GRA) are more than sufficient to respond to the demand for RFIs, the IMF is seeking additional resources for the PRGT to account for the surge in demand for RCFs and the likely need for follow-on programs.

- *New SLL instrument*: The IMF Executive Board approved a Short-term Liquidity Line (SLL) instrument to provide member countries that have very strong economic policies and fundamentals with a predictable and renewable liquidity backstop against short-term, moderate, and repeated capital flow volatility. This instrument provides 12 months of revolving access to 145% of the member's quota. In keeping with the short-term natural of the instrument, any purchases must be repaid within 12 months.

- *CCRT Expansion*: The IMF's Catastrophe Containment and Relief Trust (CCRT) provides grant-financed relief on debt service payments to the IMF by the poorest countries struck by infectious disease epidemics or affected by a global pandemic. The IMF Executive Board approved temporary debt service relief for up to 29 low-income countries over the next two years, contingent on financing. The first tranche provided $245 million for six months' worth of debt relief. The CCRT is financed by grants from member countries and currently has inadequate resources to provide relief beyond six months. The IMF has requested additional grants from member countries to provide debt relief over the next 18 months.

Additional IMF Priorities in 2020

In addition to supporting the IMF in prioritizing financial assistance in response to the COVID-19 crisis, the United States is engaging with the IMF on a number of key policy priorities for 2020, including:

- *Debt Limits Policy*: In 2015, the IMF implemented a set of principles guiding the use of limits on public debt accumulation 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, including in key areas like collateralized debt. Treasury has urged staff to improve their collection of debt data and to work closely with the World Bank on sustainable finance efforts. The Executive Board will discuss the findings in the second half of 2020.

- *Debt Sustainability Analyses for Market Access Countries:* The United States is also engaging with the IMF on a review of its Debt Sustainability Framework for Market-Access Countries (MAC). Treasury has urged IMF staff to propose reforms to the DSA tool that would help improve the realism of baseline projections and enhance transparency and comprehensiveness of debt data. The review will be completed in 2020.

- *Comprehensive Surveillance Review*: The IMF is reviewing the quality and effectiveness of its bilateral and multilateral surveillance. Treasury is engaging with IMF staff to address gaps in IMF surveillance across is its core mandate—exchange rate, fiscal, monetary, and financial sector policies. For example, Treasury is pressing for deeper financial sector surveillance and for the IMF to better incorporate Financial Sector Assessment Programs into Article IV surveillance reports. Treasury is also pushing for stronger data disclosure requirements to the IMF for surveillance purposes, including broader data collection on debt, fiscal, and foreign intervention data. The United States is also pressing for the IMF to incorporate lessons from the current crisis into its surveillance.

- *Financial Sector Assessment Program Review*. The IMF conducts mandatory financial sector assessments every five years for 29 systemically important countries 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. Treasury 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 global financial risks stemming from countries' financial sectors.

- *Integrated Policy Framework*. The IMF is working to strengthen its policy advice to emerging markets facing increases in volatility in global financial markets and capital flows. The work will consider the mix of monetary, exchange rate, macroprudential, and capital flow management policies that can be used to minimize the effects of volatility on emerging market economies. Treasury is engaging with IMF staff to make sure the advice preserves the goals of financial market development and openness and the market determination of exchange rates.

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 U.S. resources.

MULTILATERAL DEVELOPMENT BANKS (MDBS)

This section addresses key U.S. policy goals that the MDBs help 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 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 COVID-19 pandemic 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 improving their loan-level transparency, including of loans through financial intermediaries; 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.

The United States also continued to encourage stronger attention to fiduciary, transparency, environmental, and social standards, and for the MDBs to devote the necessary resources to implement these safeguards, which helps the MDBs set a benchmark for high quality projects. This focus 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 Group

Performance in 2019: During the World Bank's fiscal year 2019 (covering July 2018 to June 2019), the World Bank committed $62.3 billion in loans, technical assistance, concessional credits, grants, equity investments, and guarantees.

- The International Bank for Reconstruction and Development (IBRD) approved $23.2 billion in loans and technical assistance to middle-income countries. Latin America and the Caribbean received the largest portion of IBRD's new commitments at 24.6% followed by the Middle East and North Africa at 21%. India, Indonesia, and Jordan were the top three borrowers in FY19.

- The International Development Association (IDA) approved $21.9 billion in concessional credits and grants to 76 of the world's poorest countries. Sub-Saharan Africa received over 64% ($14.2 billion) of IDA's annual commitments, followed by South Asia at 22% ($4.8 billion). Ethiopia, Bangladesh, and Pakistan were the top three borrowers/grantees in FY19.

- The International Finance Corporation (IFC), the private sector arm of the World Bank, approved $8.9 billion in long-term investments from its own resources. The IFC mobilized an additional $10.2 billion from other investors for development projects. Over one-third of the IFC's long-term investment commitments and 81% of IFC advisory service went to businesses and enterprises in IDA countries and fragility, conflict, and violence (FCV)-affected countries.

- The Multilateral Investment Guarantee Agency (MIGA) provided a record $5.5 billion in guarantees for political risk insurance and credit enhancement, which helped finance a $23.3 billion portfolio of projects. Of MIGA's FY 2019 projects, 30% were in IDA and FCV-affected countries.

Key Institutional Reforms: In 2019, the World Bank continued to implement several key initiatives, in addition to carrying out its regular lending activities.

- *World Bank Capital Increase and Reform Package.* The World Bank continued to implement a set of important measures concluded as part of the 2018 capital increase package consisting of a $60.1 billion capital increase for the IBRD, of which $7.5 billion will be paid-in, as well as a $5.5 billion paid-in capital increase for the IFC. As part of the capital increases, 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, which Management has started to implement, 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 2019, the IBRD adopted 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 includes a $10 billion 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 under the capital package that Management has made progress in implementing 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 creditworthy 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). In October 2018, the World Bank review of its independent accountability mechanism (the Inspection Panel) resulted in adoption of the following enhancements: updated procedures for sharing investigation reports and draft management action plans with communities that filed a request, coordination with the accountability mechanism of co-financiers to process complaints, recognition of the Inspection Panel's advisory role, and clarification on use of Bank-executed trust funds. In March 2020, the Board approved three additional new tools for the Inspection Panel: verification of Management efforts to resolve community complaints of harm, an option for a dispute resolution process, and an extension of the time for submission of complaints by communities asserting they were harmed by Bank projects. The IFC and MIGA also agreed to undertake an external review of the accountability system of the IFC and MIGA, which includes the IFC/MIGA Compliance Advisor Ombudsman (CAO). The review, which is being conducted by a panel of independent experts, will consider issues such as governance, Management's role, and redress and remedy.

- *Women Entrepreneurs Finance Initiative (We-Fi).* In 2017, 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 over $350 million in donor commitments provided by 14 countries, including the United States. A second round of funding was allocated in April 2019 and made We-Fi a truly global program, with approximately $130 million in new allocations for projects in Africa, East Asia, Central Asia, and Latin America. We-Fi is now expected to assist approximately 114,000 women-led small- and medium-sized enterprises and to mobilize an estimated $2.6 billion from the public and private sectors. This impact far exceeds We-Fi's initial goal of mobilizing one billion dollars for women entrepreneurs.

- *IDA-19 Replenishment.* In 2019, IDA donors, including the United States, and Management negotiated the IDA-19 replenishment, which covers the period from July 2020 to June 2023. Donors pledged $23.5 billion to IDA-19 in December 2019, including a pledge of $3.004 billion, which will facilitate $82 billion in new grants and concessional loans over the three year period. The United States pushed for new commitments in two keys areas: (1) improving sustainable debt management by IDA recipient countries and (2) addressing root drivers of fragility, conflict, and violence (FCV). The World Bank committed to new rules-based processes to incentivize client countries to better manage debt and to tackle causes of FCV. In addition, the World Bank set targets related to important agendas such as women's economic inclusion and empowerment, improving governance, supporting refugees and their host communities in IDA countries, and advancing private sector-led development.

- *"IFC 3.0" Strategic Approach.* IFC is in its second full 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 introduced country strategies to improve engagement and upstream units to help create new markets and projects. It has strengthened its measuring and monitoring system for all investment projects to enhance impact assessment. In July 2019, IFC announced the creation of a new Environmental and Social Policy and Risk Department to serve as a new regulator that will report to the CEO and strengthen IFC's risk management and accountability throughout the project cycle. IFC is also using the IDA Private Sector Window (PSW) to finance bankable projects with high development impact in the poorest countries.

<u>2020 Priorities</u>: Key U.S. priorities for 2020 are: (1) ensuring the World Bank is used effectively and efficiently to respond to the global COVID-19 crisis; (2) finalizing policy reforms as part of the World Bank capital increase and reform package; (3) overseeing early implementation of IDA-19, including adoption of a Sustainable Development Finance Policy that incentivizes debt sustainability and transparency; (4) overseeing the implementation of high-quality environmental and social safeguards; (5) reviewing the IFC/MIGA's independent accountability mechanism to ensure that its governance structure allows it to carry out its work satisfactorily; (6) implementing the reforms to modernize 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 (7) 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) Group

<u>Performance in 2019</u>:

- AfDB Group financing approvals totaled $9.1 billion. Approvals from the AfDB's non-concessional window were $7 billion. Approvals from the concessional window, the African Development Fund (AfDF), were $2.1 billion.

- Of the total AfDB non-concessional window approvals, sovereign loans accounted for about $4.9 billion (70%) and private sector loans, investments, and guarantees accounted for about $2.1 billion (30%). Almost half (48%) 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 (23%); Central Africa (12%); East Africa (17%); North Africa (17%); Southern Africa (14%); and multiple sub-regions (17%). In 2019, the AfDB provided approximately $1.2 billion in financing to Egypt, Morocco, and Tunisia, all of which are important U.S. strategic partners.

- The AfDB plays a critical role in developing and opening African markets for U.S. businesses, in line with the goals of the U.S. Prosper Africa initiative. AfDB financing helps develop physical and telecommunications infrastructure that will boost trade, leverage business climate reforms, support local small- and medium-sized enterprises (SMEs), and contribute to the growth of an African middle class of consumers. The United States supports these key investments as a foundation for inclusive and sustainable economic growth—led by the private sector—in Africa. In 2019, the AfDB signed a new Memorandum of Understanding with the U.S. Development Finance Corporation in support of the Prosper Africa agenda.

<u>Key Institutional Reforms</u>: In 2019, shareholders of the AfDB agreed on a capital increase of 125%, including new paid-in capital of $6.87 billion, of which $437.19 million will come from the United States. As part of negotiations for the Seventh General Capital Increase (GCI-VII), the AfDB committed itself to a wide-ranging set of institutional reforms designed to improve its efficiency and effectiveness. This new reform agenda fine-tunes the human resources capacity and organizational reform begun in 2016, as well as bolsters financial sustainability; strengthens oversight, compliance, and accountability mechanisms, including environmental and social safeguards; and adds greater rigor to managing for results.

- *Human resources capacity and organizational effectiveness*: The AfDB significantly lowered the percentage of AfDB staff positions that are unfilled, with the vacancy rate falling from almost 27% to just above 10% in 2019. The high vacancy rate had been a persistent challenge following the return of the AfDB's headquarters to Abidjan from Tunis in 2014 and the creation of new positions to support decentralization. Management committed to fine-tune its organizational structure in response to a 2019 independent evaluation on the effectiveness of the Development Business and Delivery Model reform agenda of 2016, to ensure clear responsibility for all phases of operations. Management embarked on a multi-year process to strengthen staff capacity in key oversight, accountability, and compliance functions and began planning a rightsizing exercise to align staff capacity and skills with programing needs across different units within the Bank. Management also began scoping a comprehensive review of total compensation to ensure staff are compensated fairly and to identify opportunities for cost efficiencies.

- *Financial sustainability model*: In 2019, the AfDB laid out a roadmap for strengthening its income model, which will reassess its financial policies and ratios; implement automatic triggers to keep all financial ratios on target; outline a new loan pricing framework; enhance Board and Governors' oversight; provide control over the growth of lending volumes; and set out clear guidelines for net income allocation. This roadmap will be implemented over the next year.

- *Oversight, compliance, and accountability*: Management made a number of commitments in 2019 to improve oversight, compliance, and accountability. Following an independent evaluation of the Integrated Safeguards System in 2019, Management will solidify a comprehensive plan for addressing vulnerabilities in environmental and social safeguards and begin implementing this plan in 2020. Management will also develop a comprehensive plan to strengthen integrity and accountability functions in 2020 (such as the Independent Review Mechanism, which addresses complaints from people affected by the AfDB's projects, and a review of its whistleblowing policy).

- *Strategic selectivity and project quality*: Management outlined its plans to improve project quality for sovereign projects in spring 2019 and for non-sovereign projects in fall 2019. In 2020, these improvements will be integrated into a single quality assurance plan, which the the Bank will begin to implement. In addition, Governors urged and Management agreed to take a more strategic and selective approach to operations on the continent to improve the effectiveness of interventions and the institution's cost efficiency.

AfDF-15 Replenishment. In 2019, African Development Fund donors, including the United States, and Management negotiated the AfDF-15 replenishment, which covers the period from 2020-2023. Donors pledged $7.6 billion to AfDF-15 in December 2019, including a U.S. pledge of $513.9 million, which altogether represents a 32% increase over AfDF-14. Management presented a strong case for greater project selectivity, focusing on a two-pillar approach that will largely fund infrastructure projects and capacity development to increase the sustainability and effectiveness of such projects. Policy commitments under AfDF-15 include operational targets in the AfDB's priority sectors (*e.g.*, energy, transport, water, agriculture) as well as institutional reforms. The United States secured AfDF-specific commitments on strengthening debt management and transparency and on conducting a holistic review of how the AfDF addresses fragile contexts. A number of institutional policy commitments are linked to the capital increase reforms, including implementation of the Quality Assurance Implementation Plan to drive improvements in project quality and in the application of environmental and social safeguards.
<u>2020 Priorities</u>: Our top priority will be guiding the AfDB's response to the COVID-19 crisis. Other key U.S. priorities for the AfDB in 2020 include following through on our intent to subscribe to GCI-VII, which will strengthen our ability to urge robust implementation of the AfDB's reform commitments, especially: (1) supporting effective improvements to the AfDB's financial sustainability model, to ensure that new capital lasts the full 10-year horizon that shareholders and Management determined for GCI-VII; (2) supporting comprehensive plans to improve environmental and social safeguards and the Bank's integrity function, advocating for robust staffing of those functions, and protecting the independence of the oversight functions; (3) urging Bank Management to develop strong strategic selectivity to improve its efficiency and

focus around high-quality, sustainable infrastructure investments; (4) strengthening project quality and policy dialogue by fully implementing the quality assurance action plan and improving its policy dialogue toolkit; (5) further refining the approach to fragility in the Bank's concessional window, leveraging its innovative analytical tools to better address the drivers of fragility in low-income countries; (6) advocating for Management to develop a realistic plan for staffing, based on rightsizing principles, robust analytics on workload, and a total review of compensation that seeks to identify cost efficiencies; (7) encouraging the AfDB to continue building its capacity to promote African private sector growth; and (8) advocating that the AfDB's governance structures and procedures remain robust, well-functioning, and transparent. We will also work to continue building collaboration between the AfDB and U.S. agencies, including USAID, MCC, and the Development Finance Corporation.

Asian Development Bank (AsDB)

Performance in 2019:

- Total AsDB financing commitments were $21.6 billion. Sovereign commitments from AsDB's non-concessional Ordinary Capital Resources (OCR) were $13.6 billion, and concessional loans were $3.6 billion. Commitments for non-sovereign loans, guarantees, and investments totaled $3.0 billion. Commitments for grants from the Asian Development Fund (AsDF), which are provided to AsDB's poorest and most vulnerable members, totaled $854 million. In addition to these financing commitments, technical assistance totaled $238 million.

- Top recipients of AsDB funding were India (19%), the Philippines (12%), Pakistan (10%), China (10%), and Indonesia (8%).

- The AsDB's 2019 commitments largely focused on infrastructure, particularly for transport (35%) and energy (12%). The remaining approvals included financing for public sector management (13%), agriculture and natural resources (10%), financial sector development (10%), water and other urban infrastructure services (6%), education (5%), health (3%), and industry and trade (3%).

Key Institutional Reforms: The United States focused on several areas of institutional reform at the AsDB in 2019, most notably a differentiated pricing policy that allows the AsDB to charge higher rates for loans to upper middle-income borrowers.

In November 2019, donors began negotiations for the replenishment of the AsDF. As part of the negotiations, the United States has worked to ensure robust allocations for Pacific Island states, which have significant development needs and capacity constraints and are especially vulnerable to unfavorable and non-transparent lending. The United States also has ensured that the replenishment framework maintains Afghanistan's allocation at a fairly stable level with previous years.

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 AsDB's OCR and AsDF concessional lending resources in 2017 will remain financially sustainable. The United States is also working to ensure the AsDB continues to focus on graduation from AsDB eligibility as a focus on country programs. 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.

2020 Priorities: Key U.S. priorities for the AsDB in 2020 include: (1) guiding the AsDB's response to the COVID-19 crisis; (2) pressing the AsDB to assess the financial sustainability of its lending trajectory and ensure that it is maintains a sustainable lending path as agreed as part of the merger of OCR and AsDF lending resources; (3) ensuring that lending to China follows a downward trajectory and focuses on preparing China to graduate from AsDB lending; (4) constraining the growth of AsDB administrative expenses; (5) 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; (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 2019:

- EBRD investments in 2019 were $11.3 billion.

- The top recipients of investments were Egypt (12%), Ukraine (11%), Turkey (10%), Poland (8%), and Kazakhstan (7%).

- EBRD business volume in 2019 was concentrated in the following sectors: sustainable infrastructure (38%); financial institutions (34%); and industry, commerce, and agribusiness (29%).

- The EBRD provided more than $48 million to support lending to women-led enterprises and improved access to water and wastewater services for over 2.8 million people. It provided more than $1.1 billion in commitments for Ukraine to support the government's reform efforts. The EBRD provided more than $2 billion in investments to support private sector development in Egypt, Jordan, Lebanon, Morocco, and Tunisia.

- 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 2019 and early 2020, the United States pursued key objectives of (1) shifting EBRD's investment toward countries with the greatest remaining transition gaps, including through making concrete progress on graduation and (2) preventing expansion of investment to countries where the EBRD has little added value. We also continued to push the EBRD to take additional measures to reduce costs and avoid cooperation with China that helps the latter achieve its political goals. The EBRD continued to expand its global membership, as both Libya and San Marino became non-recipient member countries. Finally, the EBRD Board approved a new Transportation Sector Strategy for 2019-2024.

2020 Priorities: In addition to guiding the EBRD's response to the COVID-19 crisis, key U.S. priorities for the EBRD in 2020 include: (1) reaching consensus on a new Strategic and Capital framework for the years 2021-2025 that includes a workable graduation framework for countries in advanced transition to sustainable market economies, encourages EBRD investment where it will have the highest impact, and ensures that the EBRD reserves sufficient capital as a crisis buffer; (2) achieving selection of a new President who understands U.S. priorities and ensuring an open, transparent process in 2020; (3) pushing EBRD Management to strengthen and make full use of the range of measures to control costs, including limiting growth in staff compensation; (4) pursuing implementation of the new Independent Project Accountability Mechanism (IPAM); (5) providing continued assistance to Ukraine in support of its reform efforts; (6) ensuring the EBRD remains focused on its core mandate to support private enterprise in transition economies; and (7) ensuring a robust review of the whistleblower policy.

Inter-American Development Bank (IDB) Group

Performance in 2019:

- The IDB approved $11.7 billion in loans and grants in 2019 to its 26 borrowing member countries in Latin American and the Caribbean. In addition to these financial commitments, the IDB approved $111 million in technical assistance funded by the Bank's ordinary capital resources.

- Top recipients of IDB public sector lending in 2019 were Argentina (17%), Mexico (12%), Brazil (11%), Ecuador (10%), and Colombia (10%).

- IDB lending was spread across many sectors, with the largest amounts going to infrastructure and energy (42%), reform/modernization of the state (31%), and social sector (16%).

- IDB Invest (also known as the Inter-American Investment Corporation), the arm of the IDB Group that solely focuses on the private sector, originated $4.7 billion in loans and equity investments in 2019. Of this total, $1.1 billion was cross-booked to the IDB's balance sheet. The investments were relatively evenly distributed across the following areas: infrastructure (25%), trade finance (26%), corporates (27%), and financial institutions (22%).

- IDB Lab (also known as the Multilateral Investment Fund, or MIF) approved $82.6 million in grants and loans across its three thematic areas of knowledge economy, resilient agriculture, and inclusive cities. IDB Lab's mission is to pilot new approaches to private sector development with a special emphasis on promoting innovation and using technology as a tool for development impact. 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: The IDB and IDB Invest have maintained their best-practice financial management and remain well-capitalized with robust liquidity, which will support future growth of the loan portfolio. The IDB approved an Update to its Institutional Strategy for the years 2020-2023. It introduced a Transparency and Integrity Sector Framework Document to guide sector specialist work with governments on transparency and integrity. The IDB also revised its Procurement Policy and incorporated new measures to improve its collection of beneficial ownership information. Governors approved a migration fund to allow for concessional resources to support borrowing countries that are receiving large numbers of migrants in the region, particularly from Venezuela. Management initiated revisions of the IDB and IDB Invest environment and social safeguards policies, updated IDB Invest's Access to Information Policy, began the process of updating the IDB's Access to Information Policy, and created a formal evaluation policy for the IDB Group. IDB Invest approved a new Business Plan for 2020-2022 that raised its ambition for lending in support of small, vulnerable, and island countries; gender and diversity; and environmentally sustainable projects. IDB Invest also piloted a strategic selectivity tool that will better align non-sovereign lending to specific development needs in borrowing countries.

2020 Priorities: In addition to guiding the IDB's response to the COVID-19 crisis, key U.S. priorities for the IDB Group include: (1) ensuring that the IDB maintains a strong leadership team with strong macroeconomic and strategic regional vision, across the transitions in President and Executive Vice President; (2) making certain IDB is prepared to respond to strategic regional developments, including social unrest, health crises, economic shocks, and evolving developments in Venezuela; (3) collaborating closely with the IDB and other partners to promote reforms needed to improve conditions in the Northern Central American countries of Guatemala, Honduras, and El Salvador; (4) ensuring a robust framework in the environmental and social safeguard policies of IDB and IDB Invest and enhancing the Group's capacity to address non-financial risks; (5) urging a rigorous and comprehensive review of salary and compensation; and (6) 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 2019:

- In 2019, IFAD approved $1.63 billion for new projects and $39.5 million for grants under IFAD's global, regional, and country grant program.

- The regional distribution of IFAD approvals in 2019 was: Western and Central Africa (34%); Eastern and Southern Africa (28%); Asia and the Pacific (22%); Near East and North Africa, and Europe (14%); and Latin America and the Caribbean (2.4%).

- IFAD's current portfolio covered a range of sectors at end-2019, including agriculture and natural resource management (33% of IFAD financing), market and related infrastructure (18%), rural financial services (13%), community-driven and human development (7%), policy and institutional support (8%), and support for small and micro enterprises (9%). A variety of other efforts, including disaster mitigation and monitoring and evaluation, accounted for about 13% of IFAD funding.

Key Institutional Reforms: IFAD's Management is making progress on its major reform agenda to enhance IFAD's efficiency and impact. In 2020, the second year of the IFAD-11 replenishment period (2019-2021), IFAD plans to deliver a program of loans and grants of $1.062 billion. IFAD has continued to decentralize its operations and currently has 33% of its staff in overseas country offices and hubs. This decentralization has required several administrative and technical changes, some of which are still underway, to accommodate a new way of doing business. IFAD is continuing to implement new processes to shorten project delivery time, speed up disbursements, and improve overall results.

In its 2019 report, IFAD's Office of Evaluation (IOE) found that overall project performance remained flat in the 2015-2017 period. IOE highlighted that project-level efficiency and sustainability continue to fall short of targets and will require special attention during the IFAD-11 period. Still, IOE finds that IFAD's project performance continues to be stronger than the agriculture sector operations of the Asian Development Bank and the African Development Bank and comparable to that of the agriculture sector portfolio of the World Bank. The World Bank's performance is slightly higher at a global level. The World Bank does not include, however, sustainability of benefits in its composite project performance criterion, unlike IFAD, Asian Development Bank, and African Development Bank; IOE notes this exclusion partly accounts for a relative increase in the World Bank's performance.

The IFAD-11 Mid-Term Review, published in January 2020, finds that IFAD has delivered 75% of its commitments (37 out of 50) across the four pillars of the IFAD-11 business model—resource mobilization, resource allocation, resource utilization, and transforming resources. IFAD is making progress toward its goal of implementing fewer and larger operations in the countries of greatest need. In IFAD-11, 80 countries have received resource allocations, compared to 102 countries in IFAD-10. Additionally, average IFAD financing per project has risen to $40 million per project from $31 million in IFAD-10 and $28 million in IFAD-9. IFAD intends to continue this trend in IFAD-12.

2020 Priorities: Key U.S. priorities for IFAD in 2020 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; (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; (3) enhancing the financial architecture of the institution, including through the implementation of Debt Sustainability Framework reforms; and (4) advancing a clear and constructive policy to winnow access to finance for Middle Income Countries as part of the IFAD-12 replenishment consultation.

North American Development Bank (NADB)

Performance in 2019:

- NADB approved $281.7 million in financing in 2019. This financing included $264.9 million in loans, $15.2 million in grants, and $1.76 million in technical assistance.

- The sectoral breakdown of NADB's outstanding loan portfolio (by volume) at the end of 2019 was wind energy (45%), solar energy (33%), water and wastewater (9%), air quality (9%), basic urban infrastructure (3%), and storm drainage (1%).

- At the end of 2019, 75% (51 projects) of NADB's outstanding loan portfolio was in Mexico, and 25% (17 projects) was in the United States.

Key Institutional Reforms: In 2019, NADB continued taking 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 due to its focused geographic and sectoral mandates.

Board members 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.

2020 Priorities: In 2020, key priorities for NADB are: (1) continued efforts to strengthen the NADB's capital position by subscribing to the paid-in portion of the U.S. share of the General Capital Increase; (2) implementing the 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 ways to streamline NADB processes so that it can perform its function more efficiently with shorter processing times; (4) identifying a new U.S. Deputy Managing Director; and (5) supporting projects to reduce flows of untreated wastewater in the Tijuana River basin and other areas along the U.S.-Mexico border. To assist with COVID-19 response, the NADB Board approved a $200 million facility to support communities along the U.S.-Mexican border with lending programs built around themes such as mobility, transportation, energy efficiency, and education accessibility, as well as $15 million for small loans and technical assistance grants.

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. An important priority of the 2019 IDA-19 replenishment negotiations was to ensure IDA implemented its policies to support the sustainable graduation of its richer, more creditworthy clients from reliance on concessional resources.

The IDA graduation process is normally triggered when a country's per-capita gross national income exceeds the "operational" graduation threshold ($1,175 for World Bank fiscal year 2020) 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 17 blend countries: Cabo Verde, Cameroon, Republic of Congo, Dominica, Fiji, Grenada, Kenya, Moldova, Mongolia, Nigeria, Pakistan, Papua New Guinea, St. Lucia, St. Vincent and the Grenadines, Timor-Leste, Uzbekistan, and Zimbabwe. Although classified as a blend country, 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. As of July 1, 2020, at the start of IDA-19, Moldova and Mongolia have graduated from IDA but will be allowed to access IDA's Crisis Response Window for one additional year to help address the effects of the COVID-19 pandemic.

Annex on IMF Exceptional Access Programs in 2019

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

As of end-2019, Argentina was 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. On May 4, 2020, Treasury submitted a report to Congress on Egypt's request for an exceptional access program under the Rapid Financing Instrument. This report provides an analysis of exceptional access programs as of end-2019.

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% 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% of quota), and approved some modifications to program conditions so as to strengthen the program. The program's objectives were to bolster market confidence and reduce Argentina's balance-of-payments vulnerabilities to allow for greater economic growth and investment.

The IMF disbursed around $44 billion to Argentina from June 2018 through July 2019 prior to the election of Alberto Fernández. The IMF and Argentina have since placed the IMF program on hold while the Fernández administration completes a deal with private creditors to restructure the country's external debt and develops a new macroeconomic framework supported by the IMF.