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 Division K of the
Consolidated Appropriations Act, 2016,

Title 22 of U.S. Code Section 262r-6(b)(2),
Section 9722(b) of the William M. (Mac) Thornberry National Defense Authorization Act for Fiscal Year 2021,

Section 6103(b) of the National Defense Authorization Act for Fiscal Year 2022,

and

Section 834(b) of the United States-Mexico-Canada Agreement Implementation Act,

United States Department of the Treasury

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INTRODUCTION

To promote sustainable and inclusive global economic growth and support our national interests, the United States plays an active role in the policies and lending of the international financial institutions (IFIs). The IFIs further U.S. foreign policy and global security interests and encourage open markets and financial stability. They also help to fight poverty, support robust and inclusive global growth, enhance food security, develop quality infrastructure, combat climate change and strengthen energy security as well as respond to emerging crises and emergency situations, including pandemics, natural disasters, and the protracted displacement of refugees. Importantly, IFI financing serves as a high-quality alternative to nontransparent, unsustainable borrowing from other financiers.

U.S. leadership was instrumental in founding and designing most of these institutions. Today, the United States remains the largest or joint largest shareholder at all the institutions of which it is a member 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. foreign policy, national security, economic interests, and values.

This report responds to the requirement in 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) that 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) report annually to Congress on the participation of the United States in the international financial institutions (IFIs). It also reports on matters pursuant to the following provisions of law:

1. Section 9006 of Division K of the Consolidated Appropriations Act, 2016 (P.L 114-113), which requires the Secretary of the Treasury to report annually on changes in the lending, surveillance, technical assistance and exceptional access policies of the International Monetary Fund (IMF), and any new or ongoing exceptional access loans;

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

3. Section 9722(b) of the William M. (Mac) Thornberry National Defense Authorization Act for Fiscal Year 2021 (P.L. 116-283), which requires the Secretary of the Treasury, as the Chairman of the National Advisory Council on International Monetary and Financial Policies, to report on progress made to secure greater transparency with respect to the terms and conditions of financing provided by the government of the People's Republic of China to recipient member countries of each IFI; and

4. Section 6103 of the National Defense Authorization Act for Fiscal Year 2022 (P.L. 117-81), which directs the Secretary of the Treasury to report on activities undertaken by the IMF to

provide technical assistance to Fund members to enhance their capacity to evaluate the legal and financial terms of sovereign debt contracts with multilateral, bilateral, and private sector creditors, and efforts by the United States to advocate that the IMF promote international standards and best practices with respect to sovereign debt contracts; and

5. Section 834 of the United States-Mexico-Canada Agreement Implementation Act (P.L. 116-113), which requires the Secretary of the Treasury to report on progress in having the North American Development Bank adopt certain performance measures.

It is a strategic priority for the United States to maintain its leadership position in the IFIs, with the goal of supporting U.S. interests and encouraging IFIs' responsiveness to U.S. calls for reform. Throughout 2021, the United States promoted policy reforms across the IFIs to improve their governance, focus them on their dual missions of poverty reduction and inclusive growth, increase their focus on addressing climate change and energy security, 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 2021 through December 2021 and looks at prospects for the remainder of 2022 – during which the IFIs will be focused on responding to the continuing global COVID-19 crisis, responding to the spillover effects of Russia's war on Ukraine, the global food security crisis, and the need to increase investment in sustainable infrastructure. This report covers the following IFIs: the International Monetary Fund, the International Fund for Agricultural Development, 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, and North American Development Bank.

INTERNATIONAL MONETARY FUND (IMF)

Over 2021, U.S. engagement with the IMF focused on continuing to support members in crisis while helping to encourage a robust, sustainable, and inclusive recovery from COVID-19. U.S. engagement worked to safeguard the IMF's use of member resources and press for activities to uphold its core mandate. The United States also played a leading role in establishing and carrying out a review of the IMF's institutional safeguards under an IMF Executive Board Steering Group – this review was completed in 2022 and the IMF is working to address the review's principal findings.

Major Issues Affecting U.S. Participation at the IMF

The United States plays a key role in shaping IMF policy and institutional issues as the IMF's largest shareholder. The United States participates in the IMF financially through a quota subscription and a contribution to the IMF's secondary line of resources, the New Arrangements to Borrow (NAB). The United States has the largest voting share at the IMF, currently 16.5%, and is the only member country with the ability to veto certain major institutional decisions.

In 2021[1], the United States joined other key countries and IMF leadership in advancing a package of reforms to IMF resources designed to strengthen the IMF's role within the international financial system. In January 2020, the IMF Executive Board voted to maintain overall IMF resources at around $1.4 trillion, preserving U.S. veto power over the IMF's secondary and tertiary sources of lending. The renewal of the NAB through 2025, as well as its expansion from $260 billion to $520 billion, went into effect in 2021. The IMF's current bilateral borrowing arrangements were reduced by a commensurate amount. The United States continues to work with IMF management and other shareholders to examine proposals for extending supplemental resources, including the lending of members' Special Drawing Rights (SDRs) from the 2021 allocation to the IMF's Poverty Reduction and Growth Trust (PRGT) and the recently established Resilience and Sustainability Trust (RST). Donor financing of the PRGT and RST will enable the IMF to carry out its mission, particularly in low and middle-income countries.

In preparation for the 16th General Review of Quotas (GRQ), to be completed no later than December 15, 2023, IMF staff briefed members informally on technical issues around the review, including the adequacy of IMF resources, options to update the formula for determining member quota shares, and other issues for consideration in the GRQ. This technical work will continue through 2022, and Treasury will consult with Congress as required in advance of any negotiations over potential changes to U.S. quota participation in the IMF.

IMF Financing and Policy Developments in 2021

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 macroeconomic and financial stability. The IMF

[1] Unless otherwise noted, 2021 means calendar year 2021.

also discourages policies that are unsustainable 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 reducing the frequency and severity of economic 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, financial sector oversight, and the design and implementation of AML/CFT policies.

As of year-end 2021, the IMF had 22 active financing arrangements with member countries using its general resources (quota resources) for a total of $133 billion. This includes five precautionary arrangements totaling $105 billion with Chile, Columbia, Mexico, Panama, and Peru. New financing arrangements approved during 2021 include Cameroon, Costa Rica, Gabon, Kenya, Mexico, Moldova, Panama, Senegal, Seychelles, and Suriname. Previous programs in Angola, Egypt, and Georgia expired during 2021. As of end-December 2021 Ecuador, Egypt, and Panama had active exceptional access programs using general resources, of which only Panama was approved in 2021. Panama's Precautionary and Liquidity Line (PLL) arrangement falls under exceptional access criteria within the IMF, but as of the date of this report, Panama has not drawn financing on it. For additional information on exceptional access programs, please see the Annex I on IMF Exceptional Access Programs.

In continuing to respond to the economic shock from the COVID-19 pandemic, the IMF approved two emergency financing arrangements under the Rapid Financing Instrument (RFI) totaling $334 million and seven concessional emergency financing arrangements to low-income countries (LICs) through the Rapid Credit Facility (RCF) totaling $710 million. The RFI and RCF both provide emergency financial assistance to countries facing urgent balance of payments needs, which remained acute in 2021 as successive waves from the COVID-19 pandemic occurred. In response, the IMF Executive Board maintained elevated annual access limits for both the RFI and RCF through December 31, 2021, before allowing them to fall back to their pre-COVID levels. The RFI is available to all member countries, while the RCF is available only to the low-income IMF members that qualify for PRGT.

Beyond emergency financing, the IMF is working with several members to transition into traditional financing programs, particularly LICs, to provide necessary support while helping these countries address structural issues in their economies. As of year-end 2021, the IMF had 19 concessional financing arrangements with LICs totaling $9 billion. During 2021, the IMF Executive Board approved new concessional financing arrangements for Cameroon, Chad, the Democratic Republic of the Congo, Kenya, Madagascar, Moldova, Niger, Senegal, Sudan, and Uganda, while Mauritania's program expired.

As countries continue to respond to the unprecedented economic shocks from the COVID-19 pandemic and the spillovers from Russia's war against Ukraine, Treasury is pressing the IMF to direct effective, targeted assistance to those most in need. The United States has led a push to enhance the IMF's toolkit and its ability to support vulnerable economies as they respond to these unprecedented shocks:

- *Poverty Reduction and Growth Trust (PRGT)*. The PRGT is the IMF's concessional financing facility which provides subsidized loans to support the world's 69 LICs. Since the beginning of the pandemic, the PRGT has provided over $18 billion in zero-interest loans to about 55 LICs—a roughly fivefold increase in lending from the PRGT's pre-pandemic average. This support helped hard-hit LICs, which typically lack reliable access to global capital markets, respond to the pandemic and prevent economic collapse. IMF programs through the PRGT generally support policy reforms to help address longstanding economic, governance, and debt issues that are resulting in balance of payments problems. In 2021, the IMF Executive Board reviewed the PRGT and approved reforms that will enable the PRGT to continue providing appropriately elevated levels of support. Due to the increased PRGT lending to respond to the pandemic, the PRGT now faces an estimated $18 billion gap in its lending resources and a $4 billion gap in its grant resources. In FY 2022, Congress appropriated $102 million for grant contributions to the PRGT or other special purpose vehicle. The President's FY 2023 budget request is seeking congressional authorization to lend up to $21 billion to two IMF trust funds, including the PRGT, to help adequately fund this facility so that it can continue helping countries counteract the lingering effects of the COVID crisis and the economic shocks from Russia's war against Ukraine.[2]

- *Catastrophe Containment and Relief Trust (CCRT).* The CCRT provides grants to pay debt service owed to the IMF by eligible low-income member countries impacted by catastrophic natural disasters or public health disasters such as epidemics or global pandemics. In 2021, the IMF Executive Board approved the three final tranches, out of five total of COVID-related debt service relief for LICs, completing the debt service relief initially approved in April 2020. In total, the CCRT provided $964 million in relief to 31 LICs[3] [4], which significantly helped them free up resources for critical health and economic support to respond to COVID. While the IMF targeted $1.4 billion in grant fundraising to enable the CCRT to provide this financial assistance and rebuild its standing balances, it raised only $852 million in contributions, leaving the CCRT's resources depleted. The IMF will provide a comprehensive review of the CCRT in FY 2023, which will include a discussion of access rules and the financing framework to strengthen the trust's sustainability.

- *2021 SDR Allocation.* IMF Governors approved a general allocation of Special Drawing Rights (SDRs) equivalent to about US$650 billion, which became effective on August 23, 2021. The allocation is helping IMF members to address the long-term global need for reserves and respond effectively to economic shocks caused by COVID-19. As part of the agreement to support this allocation, Treasury pushed for the IMF to publish

[2] The other trust fund, the Resilience and Sustainability Trust (RST), is discussed below.

[3] Afghanistan, Benin, Burkina Faso, Burundi, Central African Republic, Chad, Comoros, Democratic Republic of the Congo, Djibouti, Ethiopia, Gambia, Guinea, Guinea-Bissau, Haiti, Kyrgyz Republic, Lesotho, Liberia, Madagascar, Malawi, Mali, Mozambique, Nepal, Niger, Rwanda, Sao Tome and Principe, Sierra Leone, Solomon Islands, Tajikistan, Tanzania, Togo, and Yemen.

[4] Afghanistan received debt service relief from the first three tranches of the CCRT in April 2020, October 2020, and April 2021. Afghanistan was not approved under the fourth and fifth tranches given the lack of clarity within the international community regarding the recognition of its government following the Taliban's takeover in August 2021.

quarterly financial reports on the SDR holdings and to encourage participating members to share their transaction activities to enhance transparency around the use of these reserve assets. In addition, the IMF has agreed to publish an annual update on SDR transactions and an ex-post report on the use of the allocated SDRs two years after the allocation. The IMF also developed a guidance note to help countries determine the best use for their allocation of SDRs.

- *Common Framework.* The IMF plays a key role in the Common Framework as countries must obtain an upper-credit tranche program along with a debt sustainability analysis by the IMF to be eligible for debt treatment under the Common Framework. Three countries applied for debt treatment under the Common Framework in 2021. Chad requested debt treatment in January. Official creditors provided financing assurances in June, and private creditors did so in November. Ethiopia requested treatment under the Common Framework in February, but the IMF program went off-track in August 2021 due to the country's civil war, which led the creditor committee to pause its work. Zambia also requested treatment under the Common Framework in February. In December, Zambia reached a staff-level agreement on a program with the IMF. In recent months, the IMF and G20 have been actively engaged in conversations about strengthening the Common Framework and providing more support to debt-distressed countries.

- *Debt Transparency and Sustainability*. The IMF in 2021 continued to make progress on implementing the pillars of the joint IMF-World Bank Multi-Pronged Approach to Address Debt Vulnerabilities (MPA), which is the IMF and the World Bank's overarching strategy for addressing public debt vulnerabilities in emerging market and developing economies. Under the MPA, the IMF has focused on debt transparency in its capacity development support to borrowers. The IMF adopted changes to the Debt Sustainability Analysis for Market-Access Countries that would help IMF staff produce more accurate assessments of debt risks and sustainability. The IMF also began to implement the requirement in the new Debt Limits Policy to include a debt holder profile table in IMF program reports. Jointly with the World Bank, the IMF provided advisory support to the OECD data repository of private lending to LICs and helped with the launch of the OECD debt data portal. In addition to implementing the MPA, the IMF continued to actively promote debt transparency and sustainability workstreams in the G20's International Financial Architecture working group.

- *Review of Surveillance Policies*. Surveillance of economic and financial risks is a core part of the IMF's mandate. The IMF concluded its Comprehensive Surveillance Review (CSR) in 2021 which provides strategic direction for the IMF's surveillance over the next five to ten years. Treasury, along with like-minded members of the Executive Board, supported the IMF's increased coverage of macro-related climate change issues and analysis of spillover risks. Treasury also pressed the IMF to remain committed to its core surveillance functions including exchange rates, fiscal, monetary, and financial policies. The IMF also reviewed its Financial Sector Assessment Program (FSAP), the main surveillance mechanism for member countries' financial sectors. Treasury, through the U.S. Executive Director's office, remained engaged on this issue, supporting the IMF's plan to incorporate climate change into its FSAPs. They noted our concern with their conducting stress tests in jurisdictions which already have comprehensive systems in place (such as the United States), given how resource intensive FSAPs are for national authorities.

- *Fragile and Conflict-Affected States.* After extensive consultations with external stakeholders, the IMF has finalized and launched its Strategy for Engagement with Fragile and Conflict-Affected States (FCS). The strategy seeks to enhance the IMF's efficacy to put in place credible macroeconomic frameworks in FCS, leverage flexibility within the IMF's existing policy and financing framework to address the specific needs of FCS, and tailor the IMF's capacity development, surveillance and lending conditionality to specific country circumstances. To do this, IMF staff will develop a Country Engagement Strategy for each FCS,[5] which will take account of the relevant drivers of fragility (e.g., armed conflict, weak institutional capacity, etc.) in each case. IMF staff are working to develop a Community of Practice to share lessons learned on working in FCS, create an FCS learning curriculum, and develop guidance to operationalize the new strategy, and plan to update the IMF Executive Board on strategy implementation on an annual basis.

IMF Priorities in 2022

In addition to supporting the IMF in prioritizing financial assistance in response to the COVID-19 crisis, as well as beginning work on addressing the economic and financial spillovers from Russia's war against Ukraine, Treasury is engaging with the IMF on numerous key policy priorities in 2022, including:

- *Resilience and Sustainability Trust.* On April 13, the IMF Executive Board approved the establishment of the Resilience and Sustainability Trust (RST). The United States worked with the IMF to design the RST as a vehicle for major economies to pool their funding to provide targeted and transparent support to vulnerable countries to complement regular IMF programs. The RST will offer LICs, vulnerable middle-income countries, and small states concessional long-term financing and policy advice to help them undertake key reforms to increase their resilience to balance of payments shocks stemming from the longer-term economic challenges posed by climate change and pandemics. To receive an RST program, countries must have a fully-fledged IMF program, and in addition must commit to reforms consistent with the trust's purpose. Countries must also have sustainable debt. By lending alongside IMF programs, the RST will benefit from the IMF's strong lending safeguards including governance, transparency, and anti-corruption requirements on borrowers. As with traditional IMF programs, the Executive Board will oversee the RST and decide on approval of RST program disbursements. As noted above, the President's FY 2023 budget request seeks congressional authorization to lend up to $21 billion to two IMF trust funds, including the RST, to help operationalize this facility with the resources it needs to begin lending to vulnerable countries.

[5] Identified using the World Bank's criteria.

- *Governance Issues.* The IMF continues to allocate budget resources to capacity development programs to enhance members' ability to fight corruption. In late-2022 (or early-2023), the IMF Executive Board will review implementation of the IMF's 2018 Framework for Enhanced Fund Engagement on Governance. This policy framework, which Treasury and our Executive Director strongly supported, strengthened the scope for IMF assessments of the economic impacts of corruption and poor governance, and provided scope for IMF engagement on these issues through surveillance, policy engagement, and program conditionality, where IMF staff deem them macro-critical. For example, a governance diagnostic with Moldova led to inclusion of anti-corruption as a key part of its Fund-supported program. During the upcoming review, Treasury will advocate for further mainstreaming governance as a key area for IMF engagement, including on AML-CFT, and will support IMF plans to develop diagnostics, milestones, and tools to secure country ownership of work to counter corruption. We will also use this as an opportunity to press for IMF staff to assess the governance of COVID-related spending by countries that received emergency financing from the IMF during the COVID crisis.

- *Steering Group on Institutional Safeguards.* In October 2021, the Executive Board established a Steering Group to undertake a review of the IMF's institutional safeguards, following a review of issues raised by the World Bank's 2018 Doing Business Report. The institutional safeguards review, which incorporated input from the Executive Board, IMF staff and independent experts, focused on pressing staff, management, and the Executive Board to maintain the highest possible standards around governance, use of data, and accountability. On June 30, 2022, the IMF Executive Board discussed the review's findings, which were also made public. The Steering Group is now working to develop a plan to address each of the report's recommendations, which it plans to complete by end-2023.

- *Ukraine Administered Account.* As a result of Russia's unprovoked war against Ukraine, the IMF established an Administered Account at the request of several members, which will provide donors with a secure vehicle to direct financial assistance to Ukraine. The Administered Account is intended to channel donor resources in the form of grants and loans into Ukraine's SDR account at the IMF to assist Ukraine in meeting its balance of payments and budgetary needs, as well as help stabilize its economy.

- *Capital Flows*. The IMF is working to strengthen its policy advice to emerging markets facing heightened volatility in global financial markets and capital flows. To that end, the IMF published a series of papers discussing a new framework – the Integrated Policy Framework – to integrate monetary, exchange rate, macroprudential, and capital flow management policies in response to external shocks that affect a cross border capital flows. Treasury engaged robustly with IMF staff and at the Executive Board to guide this work to preserve the IMF's focus on financial market development and openness as well as the market determination of exchange rates. In 2022, the IMF formally reviewed its Institutional View on Capital Flows, which integrated more recent academic literature into its framework, including deeming preemptive capital flow/macroprudential measures as appropriate in limited circumstances while maintaining the IMF's core principle that international capital flows are beneficial.

- *Climate Change*. The IMF's Integrated Surveillance Decision contains a clear mandate to cover the domestic policy challenges related to climate change where they are macro-critical. Given this, the IMF continues to steadily increase its activities related to climate change and global economic stability. The IMF enhanced its policy advice on climate risks and emissions mitigation in its surveillance activities, including advice for countries to address adaptation and mitigation risks when macro-critical. The IMF is working to better incorporate climate change into its capacity development work, especially related to the fiscal impacts of climate change and mitigation efforts. The IMF will continue to be a leading source of high-quality economic research, including on the various issues related to climate change and economic, fiscal, and financial stability.

- *Digital Payments and Currencies*. The IMF is working to strengthen its analysis and advice on digital currencies and payment systems to provide common guidance to its members which are increasingly seeking the IMF's expertise. Looking forward, the IMF will seek to implement its Digital Money Strategy, endorsed by the Executive Board in 2021. It lays out the policy implications of digital money as well as the IMF's role as a collaborative partner with other international institutions such as the Financial Stability Board to engender global cooperation and maintain international monetary stability. The IMF will seek to hire/deploy additional staff (from three full-time equivalents in FY 2022 to 10-15 by FY 2025) to deliver capacity development to members seeking to implement central bank digital currencies. It is in the United States' interests that the IMF promote common international principles/standards with members engaging in digital payments/currencies. Treasury will engage with the IMF to press for capacity development in the digital space that is consistent with U.S. values on physical, cyber, and financial risk mitigation from new technologies. Treasury will also press IMF staff to not allow the increase in capacity development for digital currencies to divert resources from critical areas such as financial regulation and monetary policy.

IMF Activities to Prevent Money Laundering and Financing of Terrorism

Following the IMF Executive Board's comprehensive 2018 review of its strategy on anti-money laundering and combating financing of terrorism (AML/CFT), the IMF has incorporated AML/CFT activities into program conditionality and its annual Article IV and regular financial sector surveillance when financial integrity issues are macro-critical. For example, in 2021, the Executive Board approved programs for Panama, Cameroon, and Senegal that included conditionality aimed at strengthening governance, anti-corruption, and AML/CFT frameworks and supervision. The IMF has also provided capacity development in support of these objectives in multiple countries. The IMF has longstanding cooperation with the Financial Action Task Force (FATF) and FATF-Style Regional Bodies, and also participates in AML/CFT assessments carried out by these and other entities. Since 2002, the IMF has provided targeted AML/CFT assistance through 175 projects in 92 countries, helping to support the removal of nine countries from the FATF's warning list and ongoing monitoring. The United States, through the U.S. Executive Director, has consistently pressed for increased resources to support AML/CFT work among IMF member countries, and going forward, the IMF expects to increase its AML/CFT assistance budget from $3.7 million in FY2022 to $7.7 million by FY2025. In addition, the AML/CFT Thematic Fund launched eight country projects, two regional projects, and two thematic projects since November 2020 with efforts focused on AML/CFT systems that have been affected by the pandemic as well as effective delivery of capacity development, virtually.

IMF's Administrative Issues

The IMF employs approximately 3,000 people and has an annual administrative budget of about $1.2 billion. At the consistent urging from the United States and like-minded Executive Board members, the IMF maintained a flat real administrative budget for the past eight years. However, to improve the IMF's ability to meet its core mandate to foster international financial stability, in 2021, the IMF Executive Board approved a three-year phased-in structural budget increase totaling 6% to address emerging needs called for by its membership. Spending in FY2026 and thereafter will revert to a flat real envelope. This augmentation will allow the IMF to step up its efforts to monitor the macroeconomic risks stemming from climate, digital technologies, and debt. This budget increase will enhance the IMF's ability to offer capacity development on these issues and better incorporate emerging risks when providing loans to its members. The budget increase will also enhance the IMF's capacity to deliver policy advice to its member states. Importantly, this will allow the IMF to augment its work with fragile and conflict-affect states, which is of increasing importance as a result of Russia's war against Ukraine. The budget also provides additional resources to deepen ongoing work on economic inclusion, gender, and governance.

Conclusion

The IMF has taken steps over the past year that aim to safeguard IMF resources and modernize program access to continue to provide financial assistance to members most vulnerable to the lingering economic/health impacts of the COVID-19 pandemic and will continue to do so this year. Regular reviews and adjustments of IMF policies help to maximize the IMF's institutional effectiveness, protect it from incurring losses, and thereby protect the United States' financial commitment to the IMF, decreasing the risks to U.S. resources. Looking ahead, the IMF is seeking to implement significant updates and improvements in the policy analysis/advice it provides to its membership across several issue areas. In addition, the IMF will work to alleviate the direct economic impact to Ukraine from Russia's war of aggression as well as the spillover effects to other members through elevated food and fuel prices, financial volatility, trade disruptions, and other channels.

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 during 2021.

The MDBs 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 grants and concessional lending are an important source of financing for the development needs of vulnerable and post-conflict states and for combating extreme poverty and hunger and the impacts of climate change. MDB projects promote private sector investment in sustainable infrastructure, global stability, prosperity, good governance, and private sector growth.

The United States' participation in the MDBs is an effective and efficient way to help: (1) address key U.S. foreign policy priorities such as investment in quality infrastructure, climate change and energy security, food security, and fostering broad-based, equitable, and inclusive economic development; (2) foster U.S. national security by supporting MDB engagement with fragile and conflict affected states (FCS) and providing assistance that addresses the root causes of instability; (3) offer developing countries a high-quality alternative to non-transparent, unsustainable borrowing from other financiers; (4) promote U.S. economic growth through exports by helping the MDBs boost growth in emerging and frontier markets; and (5) respond to global crises, such as the COVID-19 pandemic and natural disasters, and build countries' resilience to future crises.

The United States is the largest or joint largest shareholder at all MDBs in which it holds membership, except the African Development Bank (AfDB), where the United States is the largest non-African shareholder. As such, the United States has exceptional influence and leadership opportunities to work with MDB Management and other shareholders to shape important institutional reforms and high standards in the international financial architecture and to obtain financial and political support for major U.S. priorities. U.S. contributions to the MDBs catalyze 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.

Since January 2021, the United States has called on the MDBs to play leading roles on a number of issues and to undertake reforms in key areas, including the following:

- **COVID-19 Response and Recovery**: Since early 2020, collectively, the MDBs have provided over $130 billion to help developing countries respond to and recover from the health and economic impacts of the COVID-19 pandemic. To enable sustained high levels of financing to support recovery in the world's poorest countries, in 2021, donors to the International Development Association (IDA) accelerated the twentieth replenishment of IDA by one year.

- **Climate Change and Energy:** The MDBs are scaling up their assistance to developing countries to help them decrease their greenhouse gas emissions and adapt to the impacts of climate change. Each MDB has set robust targets to increase the provision of climate finance from their own resources. The United States has challenged the MDBs to limit their financing of fossil fuel projects and to address developing countries' energy needs in more sustainable ways, while maintaining flexibility to ensure energy security and access.

- **Russia's War on Ukraine:** Since Russia's invasion of Ukraine in February 2022, the World Bank Group (WBG) and the European Bank for Reconstruction and Development (EBRD) have programmed billions of dollars in assistance to Ukraine. This includes $8.5 billion in U.S. budget support to Ukraine that the United States has challenged through the World Bank.

- **Food Security:** Even before Russia's invasion of Ukraine exacerbated the rise in food prices, the MDBs were scaling up financing of projects to enhance food security in developing countries, with a focus on the poorest countries. The United States called for a stepped-up response to the crisis and the MDBs responded in May with the IFI Action Plan to Address Food Insecurity. The U.S. contribution of $155 million to the Global Agriculture and Food Security Program (GAFSP)[6] in mid-2022 will strengthen the ability of the MDBs to invest in food security programs that help build long-term, climate-smart resilience.

- **Forced Labor:** U.S. leadership has been critical to minimizing the risk that the supply chains of MDB projects, and the MDBs themselves, are free of products produced with forced labor. The MDBs are improving their due diligence and are working towards improved traceability regimes to rid development projects of procuring any projects made with forced labor.

- **Cyber Security:** Cybersecurity risks are an ever-present threat to private citizens, developing countries, and to the United States. The United States is working with other shareholders and MDB management to reduce the potential cyber threats in MDB projects.

During 2021, the United States worked to improve performance by driving reforms across all MDBs. These efforts included urging the MDBs to address the health, economic and social impacts of the COVID-19 crisis while also preparing countries for sustainable recoveries; focusing more on the quality of project loans rather than the quantity; improving loan-level transparency, including of loans through financial intermediaries; helping developing countries

[6] GAFSP is a World Bank financial intermediary fund (FIF) that pools donor funds and channels financing through the MDBs, IFAD, and UN food agencies to provide additional food security financing to the world's poorest countries—i.e., those countries that, within the World Bank, are eligible to receive assistance from the International Development Association (IDA) only .

improve policy environments to support private capital inflows effectively; strengthening incentives for countries to increase their debt management capacity and transparency; and increase assistance for the poorer countries with limited access to private capital. In addition, the United States advocated for the MDBs to continue implementing 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 benchmarks for high quality projects. This focus increases the likelihood of project success, fosters a more level playing field for MDB-funded contracts, and offers 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 approximately 1,500 MDB projects per year, 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 intended policy goals.

Below are the major developments for the World Bank Group (WBG), African Development Bank (AfDB) Group, Asian Development Bank (AsDB), European Bank for Reconstruction and Development (EBRD), Inter-American Development Bank Group, and the North American Development Bank.

World Bank Group (WBG)

Performance in 2021: During the World Bank's fiscal year 2021 (FY 2021, covering July 2020 through June 2021)[7], the WBG committed a total of $99 billion in loans, technical assistance, concessional credits, grants, equity investments, and guarantees. In 2021, the WBG provided more than $30 billion in infrastructure investment and $26 billion in climate finance.

- **The International Bank for Reconstruction and Development (IBRD)** committed $30.5 billion in assistance to middle-income countries to promote broad economic growth and reduce poverty. The Latin America and Caribbean region received the largest portion of IBRD's new commitments at $9.5 billion (31%), followed by Europe and Central Asia at $6.8 billion (22%) and South Asia at $4.6 billion (15%). The Philippines, India, and Indonesia were the top three borrower countries in FY 2021. The largest sectors for IBRD investments were social protection and health ($7.4 billion, or 24%), infrastructure[8] ($7.3 billion, or 24%), and public administration ($5.7 billion, or 19%).

- **The International Development Association (IDA)** committed $36 billion in concessional credits and grants to 74 of the world's poorest countries. The Sub-Saharan African region received the largest portion of IDA's new commitments in 2021 at $25 billion (70%), followed by the South Asia region at $7 billion (20%). Nigeria, Pakistan, and Ethiopia were the top three IDA recipients in FY 2021. In December 2021, IDA

[7] Unless otherwise noted, reporting is for World Bank fiscal year 2021.
[8] This includes investments in energy, information and communications technology, transportation, and water and sanitation.

Deputies and Management concluded IDA's 20th replenishment, which will begin its three-year cycle one year earlier than planned in July 2022. The largest sectors for IDA investments were social protection and health ($10.2 billion, or 28%), infrastructure ($9.7 billion, or 27%), and public administration ($5.6 billion, or 16%).

- **The International Finance Corporation (IFC)**, the main private sector arm of the World Bank, committed $12.5 billion in long-term investments from its own resources. The IFC mobilized an additional $10.8 billion from other investors for development projects. Approximately 25% of the IFC's long-term investment commitments went to businesses and enterprises in IDA countries and FCS countries. The IFC also increased its short-term commitments due to COVID-19, which totaled $8.2 billion in 2021. The IFC spent $244 million on advisory services in 2021, with sub-Saharan Africa receiving $77.4 million (32%). IFC is increasingly orienting its advisory services to building a pipeline of projects in IDA and FCS countries.

- **The Multilateral Investment Guarantee Agency (MIGA)** provided $5.2 billion in guarantees for political risk insurance and credit enhancement, which helped mobilize over $5.5 billion in total financing. Of MIGA's FY 2021 projects, 25% were in IDA and FCS countries.

WBG COVID-19 Response: The WBG initiated its COVID-19 emergency response in April 2020, financed either through special facilities to support COVID-19 response and recovery or through regular lending, particularly budget support.

- Between April 2020 and end-2021, the World Bank's COVID-19 response accounted for 51% of total IBRD and IDA financing, or $62 billion out of $120.4 billion. Of this, IBRD financing totaled $32.9 billion and IDA financing totaled $29.1 billion.

- During the same period, the IFC provided $13.6 billion across 122 projects under its COVID-19 response program. This mobilized an additional $3.7 billion in capital from other financiers.

- In 2021, MIGA's Board approved the extension of its COVID-19 response program through FY 2023 and expanded it from an initial $6.5 billion to an indicative $10-12 billion. Since the beginning of the pandemic through end-2021, MIGA issued $6.2 billion in guarantees, in support of 41 projects that assisted countries to respond to the health and economic impacts of the COVID pandemic.

- In its FY 2021, the World Bank provided $7.5 billion for the purchase and deployment of vaccines. Of this, $5 billion (68%) was for vaccine purchases, and $1.4 billion (19%) for deployment, with the remaining 14% for general COVID-19 health response. This supported the purchase of 504 million COVID-19 vaccine doses.

WBG Climate Action Plan: In 2021, the World Bank Group announced its new Climate Change Action Plan for 2021-2025. This plan includes the following commitments:

- That 35% of all World Bank Group projects provide climate co-benefits over the Plan's five-year duration.

- That at least 50% IDA and IBRD climate finance supports adaptation by end-2025.

- In addition, all IBRD projects with over 20% climate co-benefits are required to include a climate results indicator.

- As part of this plan, the World Bank has developed a new core diagnostic tool, the Country Climate Development Report, that will help countries align climate action and development efforts and will provide a strong analytical base to inform WBG country engagements.

<u>Key Institutional Reforms and Initiatives</u>: In 2021, the United States supported the implementation of several key initiatives and reforms at the World Bank, above and beyond its lending activities.

- *World Bank Capital Increase and Reform Package.* The World Bank continued to implement a set of important measures agreed as part of the 2018 capital increase package, which consisted of a $60.1 billion capital increase for the IBRD, of which $7.5 billion will be paid-in capital. It also included a $5.5 billion paid-in capital increase for the IFC. In 2021, the World Bank continued its efforts to strengthen IBRD financial sustainability, such as differentiating loan prices according to country income (which provided IBRD with $23 million in additional income in FY 2021) and increasing lending to lower-middle income countries. It also moved forward with ambitious climate lending and investment targets agreed as part of the package. Treasury assesses that the Bank made less progress enforcing IBRD's graduation policy and reducing lending to China. IBRD commitments to China in FY 2020 and FY 2021 were $1.20 billion and $1.23 billion, respectively. The Country Partnership Framework negotiated in 2019 stated that there would be an average of $1 to 1.5 billion in lending per year through FY 2025.

- *Financial Sustainability Framework.* In FY 2019, the IBRD adopted a financial sustainability framework (FSF) to restrict annual lending commitments to a level that can be sustained over a rolling ten-year horizon through organic capital accumulation. It included a "crisis buffer" to allow the IBRD to respond to crises without jeopardizing its financial position. For FY 2021, Bank Management and the Board agreed on a $10 billion buffer, consistent with prudent financial safeguards over a ten-year horizon, and Management and the Board agreed to trigger its use to support the COVID-19 crisis response. In combination with front-loading of planned lending and cancellations or reprogramming of existing loans, this buffer allowed the IBRD to reach a $41 billion lending ceiling in FY 2021 compared to $28.5 billion in FY 2020, while approaching, but not breaching, its 20% minimum equity-to-loan (E/L) ratio policy threshold. During FY 2021, the IBRD deployed $30.5 billion in lending.

- *Climate Change.* For FY 2021, the IBRD reported that 33% of its financing provided climate co-benefits. This rises to 38% when COVID-19 response operations are excluded. The IFC increased its climate investments to 30% of its own-account long-term financing commitments in FY 2021. IBRD and IFC maintained 100% compliance with climate risk screening in FY 2021. IDA's climate co-benefits in FY 2021 remained at 31% of total financing, and totaled 38% when COVID-19 operations are excluded. Nearly 75% of climate co-benefits generated by IBRD and IDA projects were from projects in middle-income countries. IBRD and IFC investment operations in key emission producing sectors incorporated the shadow price of carbon in economic analyses and applied GHG accounting and provided for annual disclosure of GHG emissions.

- *IDA-20 Acceleration*. In order to avoid a drop off in financing for world's poorest countries, the United States and other donors supported the acceleration of IDA-20 by one year . The IDA-20 replenishment period began on July 1, 2022 and will cover the three year period through end-June 2025. During this period, IDA will implement agreed IDA-20 commitments, which include efforts to strengthen health systems, including on pandemic preparedness, and support COVID-19 vaccine acquisition and rollout through additional funding and existing country allocations.

    - On climate, IDA-20 will help meet the joint developed country goal to mobilize $100 billion annually for climate finance for developing countries. Another commitment is that the share of IDA-20 climate co-benefits will increase to 35% on average, with half of this amount funding adaptation activities. From FY 2024, all new World Bank IDA-20 operations will align with the Paris Agreement.

    - IDA-20 also includes key commitments to address human capital development, the care economy, food security, and fragility, conflict, and violence. IDA has also committed to work on strengthening inclusion for LGBTQI+ persons. During IDA-20, IDA will also continue work on private sector growth, improving debt sustainability and debt transparency, and improving domestic resource mobilization.

- *IFC 3.0 Strategic Approach*. The IFC is dedicating resources and considerable focus to achieve its goal of proactively creating markets and mobilizing private capital to benefit the poorest countries. This is a challenging undertaking because of the nascent stage of private sector development in IDA and FCS countries. As part of its 2018 capital package commitments, the IFC committed to increase lending to IDA and FCS countries to 40% of its total lending by 2030. At end-FY 2021, IFC's long-term commitments in IDA and FCS countries had reached 25% of the portfolio, equal to that in FY20 but below the FY 2021 target of 29%. IFC's performance on short-term finance to IDA and FCS countries fared better, reaching 67% of total short-term financing for the year, compared to 63% in the previous FY. Finally, 46% of financing under the IFC's Fast-Track COVID-19 Facility were investments in IDA and FCS countries.

- *The Accountability Agenda.* The United States worked to strengthen accountability at both the World Bank and IFC/MIGA during WB FY 2021. In fall 2020, the World Bank enhanced the Inspection Panel's compliance review function by adding the option to verify implementation of measures to address non-compliance, and it established an independent problem-solving mechanism, supported by a new accountability mechanism secretary. Orsolya Székely was selected as Accountability Mechanism Secretary in May 2021. IFC and MIGA worked to consider and implement recommendations from an independent external review of IFC's and MIGA's environmental and social accountability framework, including the role and effectiveness of the Compliance Advisor Ombudsman (CAO). A key achievement was approval by the Boards of IFC and MIGA of a new accountability policy in June 2021, which followed a public consultation process on the draft policy. Among other things, the new policy changed the CAO's reporting line from the IFC President to the Board. In addition, Janine Ferretti was selected as the new CAO Vice President and assumed office in January 2021

2022 Priorities: During 2022, the United States is pursuing the following priorities across the WBG:

- Programming high levels of donor financial support to Ukraine, particularly budget support, to support immediate critical needs and prepare for eventual reconstruction.

- Robust assistance to developing countries as the world emerges from the COVID-19 pandemic and to help them manage the spillovers from Russia's invasion of Ukraine, including in terms of food, trade, and energy price shocks, and increasing risks of indebtedness.

- Continuing to increase its ambition on climate finance, including private sector solutions, just energy transition, and adaptation.

- Increasing private capital mobilization for high-quality infrastructure, particularly for climate, health, digital, and gender.

- Incentivizing countries to improve debt sustainability and management and promoting debt transparency, including through collection and publication of debt data.

- Modernizing and resourcing WBG accountability units adequately, including implementation of a new policy for the accountability system at IFC/MIGA, a key part of the process that was initiated in 2020.

- Reducing assistance to and making progress on graduating China from IBRD and IFC and enhancing application of the IBRD graduation policy to other wealthier countries with access to international markets.

- Enhancing healthcare resilience and COVID-19 vaccine delivery in an equitable and transparent manner.

- Sharpening focus fragility through investments in IDA and FCS countries as part of IFC 3.0.

- Promoting digitalization across all industries and regions, while limiting the use of untrusted vendors.

- Supporting continued implementation of reforms agreed to as part of the 2018 IBRD and IFC capital increase package.

African Development Bank (AfDB) Group

Performance in 2021: The following section summarizes AfDB Group activity during the period between January 1, 2021 through December 31, 2021.

- AfDB Group financing approvals (including special resources) totaled $5.8 billion in 2021. Approvals from the AfDB window (the window for non-concessional sovereign and private sector lending) were $3.4 billion. Financing approvals from the African Development Fund (AfDF), the AfDB Group's concessional window, including through the Transition Support Fund, were approximately $2.4 billion.

- Between the start of the COVID-19 pandemic and end-2021, the AfDB Group provided approximately $4.1 billion in support to help countries address the health and economic impacts of the pandemic.

- In 2021, the largest sectors for AfDB Group investments were infrastructure (44%), multi-sectoral/budget support (23%), and agriculture (9%). The AfDB Group provided approximately $2.1 billion in climate finance in 2020.

- The share of AfDB non-sovereign operations increased from 9% in 2020 to 11% in 2021. While the overall environment for non-sovereign operations remained challenging due to the impacts of the COVID-19 pandemic, the increased share for non-sovereign operations reflected increased private sector activity as Africa started emerging from the pandemic.

- Distribution of total AfDB Group approvals in 2021 by sub-region: West Africa (29%), East Africa (23%), Southern Africa (18%), Central Africa (15%), North Africa (14%), and multi-regional operations (1%). The four largest recipients of AfDB Group assistance in 2021, ranked by financing approvals were: Nigeria, Sudan, Morocco, and Egypt.

- 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.

<u>Key Institutional Reforms</u>: In 2021, the AfDB Group worked to respond to the COVID-19 crisis while implementing the reform commitments agreed under the Seventh General Capital Increase (GCI-VII) and Fifteenth Replenishment of the African Development Fund (ADF-15).

- *Established a Framework to Improve Project Selectivity.* This Framework outlines a structured approach on how to sharpen the AfDB's strategic focus within its top five focus areas by investing more selectively in fewer and more transformative operations. The framework's overarching objective is to increase the quality and development impact of the AfDB's operations while improving the institution's organizational efficiency. The framework also proposes integrating four cross-cutting priorities across the AfDB's portfolio of operations: gender, fragility, climate, and economic governance.

- *Adopted a new Climate Change and Green Growth Strategy.* The AfDB's first climate and green growth policy builds on its comparative advantages and lessons learned, focused on the four pillars of adaptation, mitigation, climate finance, and enabling environments. The strategy also includes four areas of special emphasis: transition to green growth, social inclusion, private sector development, and resilient recovery. The AfDB has been a leader on the climate change agenda and reached its target of 40 percent climate finance in 2021.

- *Adopted an AfDB Group Capacity Development Strategy*. The strategy aims to mainstream capacity development in all the AfDB Group's operations and strengthen institutional capacity for inclusive growth and sustainable development through four outcome-based interrelated strategic objectives to: (i) improve capacity for project implementation in African countries; (ii) enhance capacity for economic policy management in African countries; (iii) enhance institutional capacity for effective knowledge brokerage and policy dialogue in African countries; and (iv) position the AfDB Group as premier regional partner for capacity development for African countries. The proposed actions are mutually re-enforcing and are supported by two cross-cutting programs/enablers: (a) capacity development coordination and advisory services; and (b) capacity development for strengthening African institutions and partnerships.

- *Adopted an AfDB Group Action Plan for Debt*. The Debt Action Plan is closely coordinated with the World Bank and IMF and seeks to help member countries address the drivers of debt distress and improve policy frameworks for debt transparency, accountability, and improving competitiveness and economic diversification. The AfDB will leverage its strong relationships with member countries to engage in policy dialogue to help move clients to greater debt sustainability.

- *Improved the Employee Value Proposition*. Through a series of policies, the AfDB has improved the value proposition for employees, clarified career tracks, and improved consistent application of human resource policies. In particular, the Total Compensation Framework of the AfDB was adopted so that financial and non-financial benefits are appropriate for the institution and able to attract high-caliber staff. The performance management system and talent councils help employees move through their career with transparent and clear benchmarks and accountability expectations.

- *Accountability Mechanism Reform*. The AfDB Board approved an updated accountability framework in July 2021, renaming the accountability mechanism the "Independent Recourse Mechanism" and restructuring the process for handling complaints to be more accessible, efficient, predictable, and transparent. Implementation of the reforms will continue into 2022.

<u>2022 Priorities</u>: Key U.S. priorities for the AfDB in 2022 are:

- Strengthening institutional governance through U.S. participation in an Ad Hoc Committee of Governors overseeing a review of the AfDB's Code of Conduct and complaints handling process, as well as other relevant governance issues including the independence of the oversight and accountability units.

- Helping to meet borrowers' food security needs in response to the food and fertilizer price shocks resulting from the Russian invasion of Ukraine, while maintaining high accountability in emergency operations.

- Monitoring the AfDB's capital adequacy, cost efficiency, and other key financial ratios, finalizing key policies under the "long-term financial sustainability framework," and determining how best to balance prudent financial management with regional demands for countercyclical lending during the prolonged crisis.

- Working with the Board to develop a new AfDB energy strategy that aligns with Treasury's MDB fossil fuel guidance;

- Adopting a new, strengthened environmental and social safeguards policy that is consistent with other MDBs' approaches and strengthens safeguards implementation; and (6) negotiating the 16th Replenishment of the AfDF, with a focus on infrastructure investment and capacity building around such investments.

Asian Development Bank (AsDB)

<u>Performance in 2021</u>: The following section summarizes AsDB activity during the period between January 1, 2021 through December 31, 2021.

- Total AsDB financing commitments in 2021, including COVID-19 response, were \$22.8 billion. Commitments from AsDB's regular ordinary capital resources (non-concessional financing) were \$15.2 billion. Commitments for concessional ordinary capital financing were \$3.67 billion. Commitments for grants from the Asian

Development Fund (AsDF) and other special funds, which are provided to eligible low-income AsDB members, totaled \$344 million. Technical assistance totaled \$235 million.

- AsDB's COVID-19 response in 2021 consisted of \$13.5 billion, or roughly 60% of total AsDB financing commitments. This amount was approved under AsDB's \$20 billion COVID-19 support package that was announced in April 2020.

- AsDB complements its own resources through mobilized co-financing, which totaled \$8.8 billion in 2021.

- The top five recipient countries of AsDB sovereign financing in 2021 were: India (\$4.6 billion), Pakistan (\$2.3 billion), Philippines (\$2.25 billion), Bangladesh (\$2 billion), and China (\$1.6 billion).

<u>Key Institutional Reforms and Initiatives</u>: In 2021, AsDB continued to implement several key initiatives, in addition to carrying out its regular lending activities.

- *COVID-19 Response.* AsDB continued to support member countries in the acquisition and delivery of vaccines and provided approximately \$9 billion for such efforts through end-2021. It also provided an additional \$11 billion in COVID-19 related support for health sector investments, job creation, and social protection.

- *AsDF-13 Replenishment.* AsDB began implementing the \$4.2 billion replenishment package that donors approved in September 2020. AsDF-13 focuses grants on low-income countries in the region, particularly Pacific small island developing states, with thematic funding for (a) fostering regional cooperation and integration, (b) supporting disaster risk reduction and climate adaptation, and (c) promoting gender equality.

<u>2022 Priorities</u>: Key U.S. priorities for 2022 are:

- Supporting countries as they continue to emerge from the impacts of the COVID-19 pandemic and manage the spillovers from Russia's invasion of Ukraine.

- Pressing the AsDB to increase its loan charges in line with other MDBs and to adopt stronger mechanisms to preserve financial sustainability.

- Supporting increased investment in sustainable, quality infrastructure projects and enhancing efforts to mobilize private sector financing that will help fund a just transition to cleaner energy;

- Adopting a strong safeguards policy harmonized with, and potentially building upon, other MDBs' approaches, including a greater focus on social inclusion issues like sexual orientation and gender identity (SOGI), as well as stronger implementation and capacity building;

- Increasing AsDB's financing, including private sector financing, for climate adaptation and mitigation projects and aligning projects with the goals of the Paris Agreement; and

- Advocating for a continued decrease in AsDB finance to China and a sharper focus on activities that will put China on a path to graduation.

European Bank for Reconstruction and Development (EBRD)

<u>Performance in 2021</u>: The following section summarizes EBRD activity during the period between January 1, 2021 and December 31, 2021.

- EBRD investments in 2021 totaled $12.3 billion.

- Top recipient countries of EBRD investments were Turkey (19%), Ukraine (10%), Egypt (10%), Greece (8%), Uzbekistan (6%), and Poland (6%).

- EBRD business volume in 2021 was concentrated in the following sectors: financial institutions (41%); sustainable infrastructure (34%); and industry, commerce, and agribusiness (24%).

- In 2021, 76% of total business volume was with the private sector.

- In 2021, the EBRD responded quickly to support Ukraine and increased the level of investment in the country by 31% over 2020 levels to $1.3 billion.

- In 2021, the EBRD provided a total of $4.0 billion in COVID-19 relief, with over 90% directed at the private sector. This included $316 million in fast-track, short-term financing to existing clients and $3.7 billion in investment to support trade, infrastructure, risk-sharing, and financial intermediaries.

- The EBRD invested a total of $6.4 billion to support the transition to a green economy, or 52% of total financing. This included $5.8 billion in climate change mitigation activities, or 47% of total financing. The EBRD provided $303 million to support climate change adaptation, meaning that just under 50% of total EBRD financing was dedicated to confronting climate change.

- In 2021, the EBRD provided over $170 million to support lending to women-led enterprises and initiated over 2,100 advisory projects to help SMEs.

<u>Key Institutional Reforms</u>: In 2021 and early 2022, EBRD continued to implement key initiatives, in addition to carrying out its regular lending activities.

- In September 2021, EBRD Governors approved revised Codes of Conduct for the Board of Directors as well as EBRD personnel and established a standing Ethics Committee.

- In July 2021, the EBRD Board of Directors approved a new Post-Graduation Operational Approach, which improved the incentive structure for countries considering graduating from EBRD investment.

- On March 9, 2022, the EBRD Board of Directors approved a $2.2 billion Resilience and Livelihoods Framework to support Ukraine and other affected countries.

- On April 1, 2022, EBRD Governors voted overwhelmingly to formally suspend Russia's and Belarus' access to EBRD resources. All assistance for projects and technical assistance in Russia and Belarus has ceased. The EBRD also closed its resident offices in Moscow and Minsk.

2022 Priorities: Key U.S. priorities in 2022 are:

- Continuing to press the EBRD to mobilize and provide robust support to Ukraine and countries impacted by Russia's invasion of Ukraine.

- Disbursing and overseeing EBRD's use of the $500 million appropriated by Congress in the Additional Ukraine Supplemental Appropriations Act, 2022.

- Maintaining momentum toward a decision on the EBRD's limited and incremental expansion into sub-Saharan Africa and Iraq in 2023, while ensuring that an expansion would not require additional capital and would complement the work of existing development actors;

- Encouraging EBRD Management to strengthen and fully utilize the range of measures to control costs, including limiting growth of staff compensation;

- Emphasizing the need for the EBRD to remain focused on its core mandate to support private enterprises in its current countries of operations that are less advanced in transition to market economies as they recover from COVID-19; and

- supporting recipient countries in resisting economic influences that impede the transition to market economies and multiparty democracy.

Inter-American Development Bank (IDB) Group

Performance in 2021: The following section summarizes IDB Group activity during the period between January 1, 2021 through December 31, 2021.

- The IDB approved $14.5 billion in loans and grants in 2021 to its 26 borrowing member countries in Latin America and the Caribbean. In addition to these financial commitments, the IDB approved $227 million in technical assistance, including $106 million funded by the Bank's ordinary capital resources.

- Top recipients of IDB public sector (sovereign guaranteed) lending in 2021 were: Argentina (12.5%), Mexico (12.0%), Peru (11.3%), Colombia (9.6%), and Brazil (8.8%).

- IDB sovereign guaranteed lending in 2021 largely supported the region's efforts to respond to the health, social, and economic impacts of the COVID-19 pandemic. In 2021, IDB approved $8.2 billion (60% of the Bank's approvals) to directly address the COVID-19 emergency.

- IDB's 2021 lending was distributed across multiple sectors, with the largest amounts going to fiscal sustainability, competitiveness, and access to credit (48%); social sector programs (22%); and infrastructure and the environment (18%).

- IDB Invest (also known as the Inter-American Investment Corporation), the arm of the IDB Group that solely focuses on the private sector, committed $6.3 billion in loans and equity investments in 2021. Of this total, $1.7 billion was cross booked to the IDB's balance sheet. Total approvals were distributed across the following sectors: infrastructure and energy (22% of approvals); corporate sector (36%); and other sectors through financial institutions (42%).

- IDB Lab (also known as the Multilateral Investment Fund, or MIF) approved $103 million in grants and loans across its three thematic areas of knowledge economy, climate-smart 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.

<u>Key Institutional Reforms</u>: Key reforms underway and continuing beyond 2021 include: (1) continuing to guide the IDB Group's response to the COVID-19 pandemic, including its support for vaccination campaigns in the region; (2) shaping the Governor-mandated program of analytical work to assess the region's absorptive capacity and fiscal constraints; the effectiveness of the Group's existing instruments, structure, and resources to deliver adequate solutions; and the Group's comparative advantages in addressing the region's needs; (3) conducting a rigorous review of total compensation frameworks for IDB and IDB Invest; (4) encouraging the IDB to increase its assistance for greenhouse gas mitigation and adaptation finance and IDB Invest to further catalyze significant private climate finance flows; (5) reviewing the IDB's independent accountability mechanism (MICI) to ensure its governance structure and resources allow it to carry out its work satisfactorily; (6) developing options for the long-term financial sustainability of the IDB Lab; and (7) updating the IDB's access to information policy.

<u>2022 Priorities</u>: Responding to the mandates approved in early 2022 by the IDB Group's Governors to develop an agenda of Group-wide reforms and present a new vision and business model for IDB Invest, including the financial, resource, operational and institutional implications. The United States will seek to advance the Group-wide agenda of reforms focused on: (1) updating the IDB's outdated country classification system; (2) improving lending

instruments, including policy-based lending, to deliver greater development impact; (3) increasing climate, green finance, and biodiversity ambitions; (4) addressing the development needs of populations in fragile, conflict and violence-affected, and vulnerable situations, and small island developing states; and (5) comprehensively addressing poverty, inequality of income and opportunities, reducing informality in the labor markets, and developing social protection, health and education, while promoting resource mobilization, including of domestic resources, gender and diversity ambitions, and inclusion.

Priorities for IDB Invest include: (1) evaluating the new business model for its potential to better leverage capital and improve third-party mobilization, particularly for climate and infrastructure development; and (2) increasing financial and non-financial additionality. The United States will also focus on finalizing the IDB's new access to information policy, improving the meritocratic orientation of the IDB and IDB Invest total compensation frameworks, and closely monitoring the IDB's work to respond to the worsening food security crisis exacerbated by Russia's invasion of Ukraine, including through its programming in 2022.

North American Development Bank (NADB)

Performance in 2021: The following section summarizes NADB activity during the period from January 1, 2021 through December 31, 2021. Please also see Annex III: Report on the Performance Measures of the North American Development Bank.

- In 2021, NADB approved $143 million in total financing across all programs, including $133 million in loans, $8 million in grants, and $2 million in technical assistance.

- NADB has an environmental mandate to fund programs that benefit the environment on either side of the U.S-Mexico border region. Accordingly, NADB's outstanding loan portfolio (by loan amount) at the end of 2021 was approximately 71% clean energy (primarily wind and solar), 13% water and waste management, 9% air quality (including public transportation projects), 3% basic urban infrastructure, and 4% COVID-19 recovery financing.

- NADB's outstanding loan portfolio was 30% in United States and 70% in Mexico. The portfolio was 20% public sector, 74% private sector, and 6% public-private.

- NADB administers two grant programs – the Border Environment Infrastructure Fund (BEIF), which administers funding from the EPA to finance priority municipal drinking water and wastewater projects on the border, and the Community Assistance Program (CAP), which provides grants from NADB's retained earnings to fund critical infrastructure projects in low-income communities. Of the $8 million in grants approved in 2021, $7 million was under BEIF and $1 million was under CAP.

Key Institutional Reforms:

- *Ratings Affirmed.* In 2021, the major rating agencies affirmed NADB's double-A credit ratings, recognizing robust capitalization, maintenance of low leverage limits, high liquidity levels, and diversified loan exposures at NADB.

- Expansion of Eligible Project Types: In December 2021, the NADB Board of Directors broadened the range of projects it may finance to include projects that address climate change and promote a green economy. The Bank will engage in these sectors while maintaining its traditional focus on water, wastewater, and solid waste projects.

2022 Priorities: In 2022, key U.S. priorities for NADB are: (1) continuing to prioritize NADB's traditional areas of work while also identifying, developing, and investing in projects under newly eligible categories; (2) maintaining strong credit ratings and financial capacity; (3) navigating the evolving, but uncertain, energy sector policy environment in Mexico and potential impacts on NADB's renewable energy portfolio; (4) supporting NADB's continued work in helping address cross-border untreated wastewater flows in the Tijuana River basin and other watersheds along the border; and (5) sustaining work in line with the USMCA Implementation Act to enhance efficiencies, develop and report on performance measures, and explore new opportunities for NADB.

INTERNATIONAL FUND FOR AGRICULTURAL DEVELOPMENT

The International Fund for Agricultural Development (IFAD) is a small IFI supported by 177 member countries that is dedicated to alleviating rural poverty, hunger, and malnutrition and to supporting rural people to increase their incomes, productivity, and resilience in the face of climate change. The United States is a founding member of IFAD and its largest historical contributor.

Performance in 2021:

- In 2021, IFAD approved $1.03 billion for new projects and $10.2 million for grants under IFAD's global, regional, and country grant program.

- The regional distribution of IFAD approvals in 2021 was: Western and Central Africa (24%); Eastern and Southern Africa (28%); Asia and the Pacific (29%); Near East and North Africa, and Europe (5%); and Latin America and the Caribbean (14%).

- IFAD's current portfolio covered a range of sectors at end-2021, including agriculture and natural resource management (31% of IFAD financing), market and related infrastructure (20%), rural financial services (10%), community-driven and human development (8%), policy and institutional support (9%), and support for small and micro enterprises (9%). A variety of other efforts, including communication and monitoring and evaluation, accounted for about 13% of IFAD funding.

Key Institutional Reforms: In 2021, the United States supported IFAD's ongoing development of a mechanism to allow IFAD to deploy borrowed resources to help supplement its donor grant contributions that continue to serve as the core resource base. The United States also supported progress on institutional decentralization and retooling intended to deepen IFAD's impact on the ground. Resource mobilization, including through mechanisms outside of core contributions, remains a focus of institutional discussions. In 2022, IFAD will prepare for the Consultation on the Thirteenth Replenishment of IFAD's Resources, including through discussions on medium-term strategic direction and budget. The Governing Council of IFAD appointed Mr. Alvaro Lario of Spain as the new President of IFAD in 2022 with a term beginning October 1.

In its 2021 report, IFAD's Office of Evaluation (IOE) found that overall project achievement improved slightly. IOE observed the following: (1) a flat or slightly declining trend in relevance, effectiveness, rural poverty impact, and gender equality and women's empowerment; (2) continued improvement in efficiency, sustainability of benefits, and innovation and scaling up; and (3) a recent improvement in environment and natural resources management as well as climate change adaptation. Additionally, IOE suggested that IFAD needs to undertake greater action at the design stage and during implementation to improve project efficiency. Lastly, IOE noted that the performance of projects in countries with fragile situations had improved.

<u>2022 Priorities</u>: Key U.S. priorities for IFAD in 2022 are:

- accelerating and deepening IFAD's response to rising food insecurity exacerbated by Russia's invasion of Ukraine;

- supporting policies, projects, and programs that will advance U.S. food security priorities, integrate climate adaptation and mitigation design elements, and reach small-scale producers in the context of ongoing COVID-19 recovery;

- working with IFAD Management and other member states to strengthen IFAD's impact and its ability to alleviate rural poverty in the poorest countries by focusing on enhancing program quality, project-level efficiency, and sustainability of impact; and (4) establishing a strong and clear foundation for the Consultation on the Thirteenth Replenishment of IFAD's Resources, which starts in early 2023.

DEBT ISSUES ACROSS INTERNATIONAL FINANCIAL INSTITUTIONS (IFIs)

Reporting Pursuant to Section 9722(b) of the National Defense Authorization Act for Fiscal Year 2021 (P.L. 116-283)

This section responds to the following legislative language included in Section 9722(b) of the William M. (Mac) Thornberry National Defense Authorization Act for Fiscal Year 2021 (P.L. 116-283)

> *[SEC. 9722. ENSURING CHINESE DEBT TRANSPARENCY. (a) UNITED STATES POLICY AT THE INTERNATIONAL FINANCIAL INSTITUTIONS.—The Secretary of the Treasury shall instruct the United States Executive Director at each international financial institution (as defined in section 1701(c)(2) of the International Financial Institutions Act) that it is the policy of the United States to use the voice and vote of the United States at the respective institution to seek to secure greater transparency with respect to the terms and conditions of financing provided by the government of the People's Republic of China to any member state of the respective institution that is a recipient of financing from the institution, consistent with the rules and principles of the Paris Club. (b) REPORT REQUIRED.—The Chairman of the National Advisory Council on International Monetary and Financial Policies shall include in the annual report required by section 1701 of the International Financial Institutions Act— (1) a description of progress made toward advancing the policy described in subsection (a) of this section; and (2) a discussion of financing provided by entities owned or controlled by the government of the People's Republic of China to the member states of international financial institutions that receive financing from the international financial institutions, including any efforts or recommendations by the Chairman to seek greater transparency with respect to the former financing.]*

Over the previous fiscal year, Treasury has actively pressed the IMF and World Bank through the respective U.S. Executive Directors to pursue increased transparency around the debt that borrower countries owe to all their creditors, including China. Treasury's efforts have contributed to significant progress by the IMF and World Bank to enhance debt transparency. Both of these international financial institutions (IFIs) have revised existing policies and established new policies on debt data reporting and disclosure under their joint Multi-Pronged Approach to Address Debt Vulnerabilities. These policies increase the scope and granularity of debt data that all member states must provide to both institutions and that the institutions subsequently disclose in their reports to their respective Boards. They also increase the incentives for member states to improve their debt data reporting to the institutions.

For example, the IMF's revised Debt Limits Policy (DLP) increases the scope for IMF staff to use program conditions in IMF-supported programs to close critical debt data gaps on a case-by-case basis. The DLP also requires IMF staff to include a debt holders' profile table in IMF program documents that shows each creditor's claims on the debtor country. The IMF also strengthened requirements on debt disclosures in its recently updated Debt Sustainability Analysis for Market-Access Countries. Treasury also supported the World Bank's Sustainable Development Finance Policy, which incentivizes IDA countries to improve debt transparency by linking the countries' implementation progress on the relevant performance and policy actions to their IDA allocations. Separately, both institutions have stepped up their technical assistance to debtor countries to help improve these countries' capacities in debt data collection and reporting. Going forward, Treasury will continue to engage the IMF and World Bank on debt transparency, including on collateralized lending and creditors' reporting on their lending activities to both institutions, and promote greater transparency by creditors in the G20.

Treasury continues to monitor developments on Chinese lending and push the IFIs to improve the reporting and coverage of Chinese debt in their debt databases. Chinese lending has continued to slow from its peak in 2016. Estimates of the total stock of outstanding Chinese official loans range widely from roughly $500 billion to $1 trillion, concentrated in middle-income countries and larger LICs. Direct lending from Chinese policy banks (particularly China Export-Import Bank and China Development Bank) and state-owned commercial banks now makes up the bulk of China's claims on developing countries and emerging markets, followed by FDI and short-term trade finance. Chinese debt contracts often include clauses (e.g., collateral arrangements, escrow accounts, and repayment guarantees) that seek to maximize commercial leverage over borrowers or secure repayment over other creditors. Opacity around Chinese lending continues to be a problem. One study found that *all* contracts with Chinese state-owned entities after 2014 contain strong confidentiality clauses that prevent the borrower from disclosing any contract terms or related information unless required by law.[9] In a debt restructuring context, these terms put borrower countries in the position of having to choose between violating the contract terms or not adhering to the principles of the Paris Club and Common Framework on information sharing and comparability of treatment.

<u>Reporting Pursuant to Section 6103 of the National Defense Authorization Act for Fiscal Year 2022 (P.L. 117-81)</u>

This section responds to the following legislative language included in Section 9722(b) of the National Defense Authorization Act for Fiscal Year 2021 (P.L. 116-283)

> *[Section 6103. The Secretary of the Treasury shall instruct the United States Executive Director at the International Monetary Fund to use the voice and vote of the United States to advocate that the Fund promote international standards and best practices with respect to sovereign debt contracts and provide technical assistance to Fund members, and in particular to lower middle-income countries and countries eligible to receive assistance from the International Development Association, seeking to enhance their capacity to evaluate the legal and financial terms of sovereign debt contracts with multilateral, bilateral, and private sector creditors." (b) Report to the Congress. Within 1 year after the date of the enactment of this Act, and annually thereafter for the next 4 years, the Secretary of the Treasury shall report to the Committee on Financial Services of the House of Representatives and the Committee on Foreign Relations of the Senate on (1) the activities of the International Monetary Fund in the then most recently completed fiscal year to provide technical assistance described in section 1630 of the International Financial Institutions Act (as added by this section), including the ability of the Fund to meet the demand for the assistance; and*

[9] Gelpern, Anna, Sebastian Horn, Scott Morris, Brad Parks, Christoph Trebesch, "How China Lends: A Rare Look into 100 Debt Contracts with Foreign Government," Aid Data, the Kiel Institute for the World Economy, Peterson Institute for International Economics and Center for Global Development (2021).

(2) the efficacy of efforts by the United States to achieve the policy goal described in such section and any further actions that should be taken, if necessary, to implement that goal.]

The provision of technical assistance (TA) and capacity development (CD) support to address LICs' debt risks is a core component of the IMF's work under the IMF's and World Bank's Multi-Pronged Approach to Address Debt Vulnerabilities (MPA). However, the TA offered by the IMF does not specifically focus on evaluating sovereign debt contracts, which IMF staff may or may not have access to, depending on the extent of information sharing between a debtor country and the IMF. In addition, the IMF does not get involved in negotiations between debtor countries and their creditors on specific contract terms. Rather, IMF TA broadly covers the areas of: (1) debt management institutions, processes, and practices; (2) debt transparency; (3) management of debt-related fiscal risks; (4) development of domestic debt markets; and (5) debt sustainability analysis. The objective of IMF TA is to help debtor countries build the long-term capacities to effectively identify and monitor across their debt risks portfolios. The IMF has scaled up TA and CD activities in response to increased demand from LICs for help in addressing growing debt vulnerabilities. On average, the IMF dedicated a third of its total TA over the past fiscal year on debt management support to LICs.

The IMF's and World Bank's joint Debt Management Facility (DMF III) is a key vehicle for delivery of TA on debt management and transparency to LICs. The United States has contributed $2 million to the joint DMF III, which provides technical assistance to over 80 countries (mostly LICs) to strengthen debt management capacity. Treasury leverages this U.S. contribution through participation in the DMF Steering Committee and is actively supporting DMF efforts to scale up capacity building assistance for developing country debt management, including development of analytic tools that strengthen debt management, reduce debt-related vulnerabilities, and improve debt transparency.

ANNEXES

I. Annex on IMF Exceptional Access Programs in 2021

Under normal access limits, total IMF program financing (inclusive of outstanding credit) from general resources 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.

Ecuador, Egypt, and Panama had exceptional access programs using general resources as of end-2021, of which only Panama was approved in 2021. When a new exceptional access program comes before the IMF Executive Board for approval, Treasury is required to submit a report to Congress – prior to the U.S. Executive Director voting for approval – in accordance with section 9004 of the Consolidated Appropriations Act, 2016.

On January 19, 2021, the IMF Executive Board approved Panama's request for a two-year Precautionary and Liquidity Line (PLL). Panama requested the PLL out of concern about downside risks stemming from the global recession as the COVID-19 pandemic unfolded. The PLL was approved for 500% of quota ($2.7 billion). At the time of the PLL, Panama had outstanding credit of 100% of quota (roughly $0.5 billion) from an RFI. The first review of Panama's PLL was approved by the Executive Board in July 2021. To date, Panama has not drawn on the PLL.

II. Report on IDA Contribution to Country Graduation

The U.S. Department of the Treasury presents this report consistent with 22 U.S.C. § 262r-6(b)(2). This 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, thereby 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.

The IDA graduation process is normally triggered when a country's per capita gross national income exceeds the "operational" graduation threshold ($1,185 for WB FY 2021) for at least two consecutive years and the country is deemed creditworthy enough to receive loans from the 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 14 active IDA blend countries: Cabo Verde, Cameroon, Republic of Congo, Dominica, Fiji, Grenada, Kenya, Nigeria, Pakistan, Papua New Guinea, St. Lucia, St. Vincent and the Grenadines, Timor-Leste, and Uzbekistan.[10]

To date, 37 countries have graduated from IDA. Moldova and Mongolia graduated from IDA on July 1, 2020 (but were allowed to maintain temporary access to IDA's Crisis Response Window for one year to support pandemic response). IDA Management recommended that no IDA eligible country be considered for graduation at the end of IDA-19 due to the impact the COVID-19 pandemic has had on incomes, creditworthiness, and access to other sources of finance.

III. Report on the Performance Measures of the North American Development Bank

USMCA Law Reporting Language

Section 834 of the United States-Mexico-Canada Agreement Implementation Act states:

"(a) IN GENERAL.—The Secretary of the Treasury should direct the representatives of the United States to the Board of Directors of the North American Development Bank to use the voice and vote of the United States to seek to require the Bank to develop performance measures that—

(1) demonstrate how projects and financing approved by the Bank are meeting the Bank's mission and providing added value to the region near the international land border between the United States and Mexico; and

(2) are reviewed and updated not less frequently than annually.

(b) REPORT TO CONGRESS.—The Secretary of the Treasury shall submit to Congress, with the submission to Congress of the budget of the President for a fiscal year under section 1105(a) of title 31, United States Code, a report on progress in imposing the performance measures described in subsection (a) of this section."

Background

The North American Development Bank (NADB) is a binational financial institution established by the governments of the United States of America and Mexico to provide financing for the development and implementation of environmental infrastructure projects that preserve, protect, or enhance the environment in order to advance the well-being of the people of the United States and Mexico.

NADB fulfills its mission by providing loans to public and private sponsors in both countries, administering and providing grants, and providing technical assistance to support the development of projects and strengthen institutional capacities in the region. In addition, NADB acts as a liaison in the coordination between the two countries on related matters.

[10] Although classified as a blend country, Zimbabwe does not currently receive IDA or IBRD financing due to protracted non-accrual status.

As part of its loan program, in addition to capital, NADB offers a variety of financial services to support the development of projects, including due-diligence coordination, financial structuring, mandated lead arranger services, and collateral and agency services.

In the area of grants, NADB administers two programs:

- *The Border Environment Infrastructure Fund (BEIF)*, funded annually through the Environmental Protection Agency's Border Water Infrastructure Program, as appropriated by the U.S. Congress. Grants are provided for the implementation of high-priority municipal water and wastewater infrastructure projects on either side of the border.
- *Community Assistance Program (CAP)*. Grants funded by NADB's retained earnings and used for critical infrastructure projects in low-income communities. In 2021, a $1.9-million congressionally-appropriated grant from the U.S. Department of State was designated for the CAP program.

NADB also provides grants in the form of technical assistance for the development and preparation of infrastructure projects, including planning, design, environmental clearance, and construction management. This program is particularly valuable for border communities with limited experience or institutional capacity to manage a major infrastructure project.

In light of the COVID-19 pandemic, in May 2020, the Board of Directors approved a temporary COVID-19 Recovery Program (ProRec) to support projects that have both environmental benefits and direct positive impacts on the economy and well-being of residents of the region. A maximum of $200 million has been allocated to the program for: (1) the refinancing of existing debt on environmental infrastructure or for public entities, such as water utilities, whose mandate is aligned with the NADB mission, as well as (2) projects that have a recognizable environmental benefit but are focused on delivering significant social, health or economic benefits, such as the creation or preservation of jobs, the betterment of health and/or health services, or improvement of technological connectivity and access to information.

In December 2021, the Board of Directors formally approved expansion of the Bank's lending program to include investments in a wider variety of environmental infrastructure projects. These projects will help tackle climate change and promote a green economy, while at the same time maintaining its dedication and attention to priority projects in the core sectors of water, wastewater, and municipal solid waste. With this strategic expansion, NADB may now finance projects related to energy storage, mobility (including ports of entry), urban development, sustainable buildings and industrial parks, green manufacturing and products, sustainable food value chains, climate change adaptation and climate resilience.

Performance Evaluation Process

NADB has a Monitoring and Evaluation System (M&E) in place to measure the performance of each individual project, as well as to track trends in various environmental, human health, and socioeconomic indicators at the border region level. NADB uses this information to identify remaining needs in the region and calibrate its strategy and workplan.

At the project level, the Bank establishes clear, quantifiable goals and targets as part of the Board approval process. A Results Matrix is developed, which includes quantitative estimates of the anticipated project results, divided into *outputs* (e.g., physical characteristics, cost, and construction schedule of the project) and *outcomes* (e.g., population served, amount of water treated, renewable energy produced, emissions avoided). After a project has been in operation for one year, NADB conducts a closeout process in which the actual achievements of the project are measured and compared against the goals and targets set out in the Results Matrix, as approved by the Board, and assesses how closely these targets are being met.

Impact of NADB-funded projects

Since its inception in 1994, NADB has financed 288 environmental infrastructure projects, of which 262 are already in operation and serving more than 18 million people in the border region. A summary of the cumulative impact of NADB-funded projects per environmental sector as of December 2021 is presented below.

Water

Objectives:

- Increase access to sustainable and safe drinking water and eliminate exposure to unsanitary water conditions to prevent water pollution and the transmission of water-related diseases.
- Conserve freshwater resources to support adequate water supply in the semi-arid and drought-prone border region.
- Provide adequate stormwater infrastructure to prevent flooding and contaminated runoff and to harness rainwater for beneficial uses.

General Statistics:

- 171 projects in operation
    - 144 water and/or wastewater
    - 24 water conservation
    - 3 stormwater
- $1.1 billion in NADB financing
- $2.6 billion in total investments
- 12.8 million people benefitting

Reliable Water Supply

26	treatment plants built, expanded or rehabilitated with a combined capacity of 160 millions of gallons per day (mgd), sufficient to supply 2.4 million people
310	miles of waterlines installed
14,129	new connections for first-time service
43	communities benefitted

Adequate Wastewater Treatment

64	treatment plants built, expanded, or rehabilitated with a combined capacity of 443 mgd, sufficient to serve 8.4 million people
1,566	miles of sewer lines installed
402,796	new connections for first-time service
91	communities benefitted

Water Savings	
1,033	miles of improved canals and water conveyance systems in irrigation districts
495	cubic feet per second of water being saved for farmers and municipal water systems, sufficient to supply 4.8 million people
20	irrigation districts benefitted
Improved Flood Controls	
21.5	miles of stormwater collectors
386	acre-feet of reservoir capacity
175	cubic feet per second of pumping capacity
122,493	households benefitted in 3 communities

mgd = million gallons per day

Waste Management

Objectives:

- Provide proper waste disposal facilities to protect groundwater resources, prevent soil and air pollution and control the proliferation of disease-carrying rodents and insects.
- Promote comprehensive waste management systems, including recycling and waste reduction efforts.

General Statistics:

- 26 projects in operation
- 3.5 million people benefitting
- $22.2 million in NADB financing
- $49.6 million in total investments

Proper Waste Disposal	
17	sanitary landfills built or expanded with a combined capacity of 5.9 million cubic meters
13	open-air dumpsites closed, covering 32 acres of land
164	collection and landfill operation vehicles purchased
3,365	metric tons a day of new waste management capacity
39	communities benefitted

Air Quality

Objectives:

- Support efforts to reduce the emission of greenhouse gases and other airborne pollutants through clean energy generation and more efficient energy use, promoting cleaner and more efficient forms of transportation and paving dirt roads.

General Statistics:

- 60 projects in operation
- $2.1 billion in NADB financing
- $7.2 billion in total investments

- 38 clean energy
- 19 roadway improvements
- 3 public transportation

10.3 million people benefitting

Clean and Renewable Energy

3.1	gigawatts of new generation capacity installed
4.5	million metric tons of carbon dioxide/year avoided equivalent to the approximate consumption of 750,000 homes
32	communities benefitted

Better Mobility

12.6	million square meters of street paved or rehabilitated
13,493	metric tons/day of suspended particulate matter (PM_{10}) avoided
14	communities benefitted

Public Transportation

785	buses with cleaner technology
4,860	metric tons of carbon dioxide emissions avoided, equivalent to 12 million passenger car-miles
8	communities benefitted

$ Covid Recovery Program (ProRec)

Objectives:

- $ Support projects that have both environmental benefits and direct positive impacts on the economy and well-being of residents in the U.S.-Mexico border region.

General Statistics:

- 5 projects in operation
- 95,593 people benefitting
- $35.3 million in NADB financing
- $35.4 million in total investments

Refinancing Existing Debt

821,727	dollars in annual debt service obligation savings
4	communities benefitted

Project Approvals and Construction Completed in 2021

A. Projects Approved

During 2021, twelve new projects were approved to receive up to $130.4 million in loans and grants; however, one loan for up to $8 million was subsequently cancelled prior to year-end as the project sponsor decided to pursue alternative financing, reducing the total financing approved to $122.4 million. The 11 remaining projects represent a total investment of US$190.6 million and will benefit an estimated 355,000 border residents.

More than half of the projects were in the priority sector of water and wastewater. Improvements and expansion of water distribution systems through two projects in El Paso County, Texas, will provide first-time access for 282 households in three communities, as well as ensure sustainable and safe drinking water for approximately 9,330 residents. Furthermore, improvements to wastewater collection and treatment systems in four U.S. communities and one Mexican community will ensure adequate wastewater services for close to 31,300 residents, as well as help prevent up to 15.6 million gallons a day of untreated sewage discharges from spills and leaks that could affect shared aquifers and rivers, including the Rio Grande.

In the area of clean energy, NADB approved two energy storage projects in California consisting of 45 facilities with a combined capacity of 133.5 megawatts in alternating current that will be built at eight sites throughout San Diego County and one site in Riverside County. The projects will be capable of storing and delivering up to 89,446 MWh of electricity, equivalent to the annual consumption of 14,088 customers. In addition to improving grid reliability and increasing energy efficiency, these facilities will help maximize the use of renewable energy and reduce the use of ramp-up/ramp-down fossil-fuel power generating plants, thereby displacing the emission of an estimated 31,190 metric tons/year of carbon dioxide.

Through its COVID-19 Recovery Program (ProRec), NADB approved the construction of a medical complex in Sonora that will also serve residents from Yuma County, Arizona and Imperial County, California. In addition to increasing access to affordable healthcare services in the region, the new hospital and medical specialties center will incorporate sustainable construction techniques and thermally efficient building materials that are expected to use 43% less water than a typical healthcare facility and 18% less electricity. The local community is also expected to benefit from the creation of 275 jobs during construction and more than 140 direct jobs once the new medical facilities are operating at full capacity.

Two refinancing projects totaling $3.2 million were also approved through ProRec for a local government and a regional water utility in Texas. Both refinancing transactions were executed prior to year-end and are expected to save a combined $121,727 in debt service payments during the first year of the loans. Those savings can be redirected to support the maintenance and operation of existing infrastructure and help the two entities to continue providing essential public services to 32,900 Texas residents while minimizing the impact on taxes or user fees.

B. Completion of Construction

In addition to the two ProRec refinancing projects detailed above, the implementation of nine infrastructure projects was completed during the year—mainly in the priority sector of water. These projects represent a total investment of $337 million and are benefitting more than 382,000 border residents in communities on either side of the border.

Four wastewater projects are directly benefitting two communities in the United States and two in Mexico. The expansion of the sewer systems in Socorro, Texas; Douglas, Arizona; and Camargo, Tamaulipas is providing first-time service to 976 households and collecting an estimated 689,865 gallons per day of wastewater for treatment. The latter two communities are also benefitting from improved treatment capacity. Finally, the rehabilitation of a major sewer main in Tijuana, Baja California is preventing potential raw wastewater spills of up to 6 million gallons per day that could impact transboundary flows in the Tijuana River.

In terms of drinking water, two projects in Texas have increased access to a safe and reliable water supply for 2,159 households, while also reducing water losses by an estimated 93,700 gallons a day.

In the area of clean energy, the first energy storage facility funded by the Bank began operations in Riverside County, California, with the capacity to store and deliver up to 1,796 megawatt-hours of electricity a year, equivalent to the annual consumption of 283 customers. A 200-megawatt solar park also entered into operation in Webb County, Texas and is expected to produce electricity equivalent to the annual consumption of 13,676 households. Both projects are helping increase the reliability of the power grid, while also displacing harmful emissions from fossil-fuel powered generation plants.

Finally, a multi-year basic urban infrastructure project that mainly consisted of paving 81,189 square meters (m^2) of dirt roads in residential areas and rehabilitating 23,300 m^2 of high-traffic roadways that were in poor condition, is benefitting 90,700 residents in Playas de Rosarito, Baja California. In addition to providing safer roadways for motorists, these paving works are helping improve air quality by preventing the emission of an estimated 46.2 metric tons/year of particulate matter with diameters of 10 microns or less (PM_{10}), while better urban mobility is helping reduce vehicle emissions, including an estimated 692 kg/year of carbon monoxide and 222 kg/years of nitrogen oxides. The comprehensive project also entailed replacing waterlines and sewer lines in some areas prior to paving, as well as installing related storm drainage infrastructure, sidewalks, green areas, and public lighting.

Additional information regarding the Bank's projects and results can be found on its website at www.nadb.org.