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

June 2023

TABLE OF CONTENTS

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 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 (TA), 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;

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 TA 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 IFI responsiveness to U.S. calls for reform. Throughout 2022, the United States promoted policy reforms across the IFIs to improve (a) their governance and ability to respond to global challenges, like climate change, pandemics, and fragility and conflict, (b) their focus on food and energy security, poverty reduction, and inclusive growth, and (c) the efficiency with which they use their financial resources and conduct their operations, while maintaining high fiduciary, social, and environmental standards.

This report covers the period from January 2022 through December 2022 and looks at prospects for the remainder of 2023 – during which the IFIs will be focused on responding to the spillover effects of Russia's war against Ukraine, including a slowing global economy and increased food and energy insecurity; debt sustainability risks; and the need to increase investment to combat climate change and promote sustainable infrastructure. This report covers the following IFIs: the IMF, the International Fund for Agricultural Development, and the multilateral development banks (MDBs), including the World Bank Group, African Development Bank Group, Asian Development Bank, European Bank for Reconstruction and Development, Inter-American Development Bank Group, and North American Development Bank.

INTERNATIONAL MONETARY FUND (IMF)

In the aftermath of Russia's illegal and unprovoked war against Ukraine, U.S. engagement with the IMF has focused on supporting member countries as they face the continued implications from Russia's war, the COVID-19 pandemic, climate change, and the consequences of fragility, conflict, and violence. During 2022,[1] the United States played a leading role in enhancing the IMF's toolkit and its ability to support vulnerable economies as they respond to these unprecedented shocks, while also pressing the IMF to focus on its core mandate amid heightened uncertainty in the global economic environment.

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 of IMF members, currently 16.5%, and is the only member country with the ability to veto certain major institutional decisions.

IMF Financing and Policy Developments in 2022

The IMF plays an important role in safeguarding the international financial system and promoting financial stability through its principal activities of surveillance, financing, and TA. The IMF's bilateral and multilateral surveillance is aimed at encouraging policies that contribute to sustainable global growth and macroeconomic and financial stability. The IMF 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 anti-money laundering and combating the financing of terrorism (AML/CFT) policies.

As of end-2022, the IMF had 23 active financing arrangements with member countries using its general resources (quota resources) for a total commitment of $147 billion. This includes six precautionary arrangements totaling $84 billion with Chile, Colombia, Mexico, North Macedonia, Panama, and Peru. New financing arrangements approved during 2022 include Argentina, Armenia, Barbados, Benin, Chile, Colombia, Egypt, Georgia, North Macedonia, Peru, and Serbia. Previous arrangements in Armenia, Barbados, Chile, Colombia, Ecuador, Equatorial Guinea, Ethiopia, Honduras, Peru, and Ukraine expired during 2022. As of end-2022, Argentina, Egypt, and Panama had exceptional access programs using general resources, of which Argentina and Egypt were approved in 2022. Panama's Precautionary and Liquidity Line (PLL) arrangement fell under the exceptional access criteria within the IMF, but as of end-2022,

[1] Unless otherwise noted, years refer to the calendar year.

Panama did not draw on the PLL. For additional information on exceptional access programs, please see Annex I on IMF Exceptional Access Programs in 2022.

As of end-2022, the IMF had 21 concessional financing arrangements with low-income countries (LICs) totaling $10 billion under the Poverty Reduction and Growth Trust (PRGT). During 2022, the IMF Executive Board approved seven new concessional financing arrangements for Benin, Cabo Verde, the Republic of Congo, Mozambique, Nepal, Tanzania, and Zambia, while arrangements in the Central African Republic, Honduras, Mali, and Sudan expired. The IMF is also working with low-income and vulnerable middle-income members to build resilience to external shocks and ensure sustainable growth. As of end-2022, the IMF had three financing arrangements under the new Resilience and Sustainability Trust (RST) totaling $1.2 billion. During 2022, the IMF Executive Board approved new arrangements under the RST for Barbados, Costa Rica, and Rwanda.

In continuing to respond to global economic shocks, in 2022, the IMF approved two emergency financing arrangements under the Rapid Financing Instrument (RFI) for Ukraine totaling $2.7 billion and three concessional emergency financing arrangements to LICs (Guinea, Malawi, and Tonga) under the Rapid Credit Facility (RCF) totaling $173 million. The RFI and RCF both provide emergency financial assistance to countries facing urgent balance of payments needs. The RFI is available to all member countries, while the RCF is available only to the low-income IMF members that qualify for the PRGT. Three of these arrangements (Guinea, Malawi, and one of the Ukraine arrangements) were under a new, temporary Food Shock Window (FSW) approved by the Executive Board in September 2022.

As countries continue to respond to ongoing 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 in addressing both near- and longer-term challenges:

- *PRGT*. The PRGT is the IMF's concessional financing facility which provides subsidized loans to support the 69 LICs that are eligible. Since the beginning of the pandemic, the PRGT has provided about $24 billion in zero-interest loans to more than 50 LICs—a roughly fourfold 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. Due to the strong demand for IMF lending under the PRGT, additional grant and loan resources will be required to preserve the PRGT's self-sustainability over the medium term. Based on current lending projections, the PRGT requires an additional $4 billion in subsidy resources to support interest-free loans and $1 billion in loan resources. The gap for both PRGT subsidy and loan resources could widen depending on LIC financing demands. The President's FY 2024 budget request is seeking congressional authorization to lend up to $21 billion to the PRGT, as well as the RST, to continue helping countries address economic shocks exacerbated by Russia's war against Ukraine. The U.S. budget cost of this loan would be covered with previous year appropriations; we are only seeking authorization to make the loan.

- *RST*. On October 12, 2022, the RST became operational following contributions from Australia, Canada, China, Germany, Japan, and Spain. The United States had worked with IMF staff and other members to design the RST as a vehicle for donor countries to pool their funding to provide targeted and transparent support to vulnerable countries to complement regular IMF programs. The RST offers LICs, vulnerable middle-income countries (MICs), 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 must commit to reforms consistent with the trust's purpose and the IMF's mandate. Countries must also have sustainable debt. By lending alongside IMF programs, the RST benefits from the IMF's strong lending safeguards, including governance, transparency, and anti-corruption requirements on borrowers. As with traditional IMF programs, the Executive Board oversees the RST and decides on approvals of RST program disbursements. The Executive Board approved three RST programs as of end-2022, and around 40 countries have expressed interest in an RST program to the IMF. As noted above, the President's FY 2024 budget request seeks congressional authorization to lend up to $21 billion to two IMF trust funds, including the RST, to provide this facility with the resources it needs to lend to vulnerable countries.

- *Climate Change*. The IMF's Integrated Surveillance Decision, adopted in 2012, 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 integrate macro-critical aspects of climate change into its surveillance, lending, and capacity development. 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 has also increased capacity development on climate change, in particular, 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.

- *FSW*. The IMF Executive Board approved a new, temporary FSW under its suite of emergency financing instruments in September 2022. The new window offers additional financing to countries that face urgent balance of payments needs associated with the global food crisis. The FSW is set to expire in end-September 2023. The IMF plans to review the impact of the FSW by end-June 2023, in parallel with the Board's consideration of the exit strategy for temporary modifications to the IMF's access limits for emergency facilities in response to the COVID-19 pandemic.

- *Catastrophe Containment and Relief Trust (CCRT).* The CCRT provides grants to pay debt service owed to the IMF by eligible LICs impacted by catastrophic natural disasters or public health disasters, such as epidemics or global pandemics. In December 2021, the IMF Executive Board approved the fifth and final tranche of COVID-related debt service relief for LICs, completing the debt service relief initially approved in April 2020. In total, over the two-year period from April 2020 to April 2022, the CCRT provided $927 million in debt relief to 31 LICs,[2,3] which helped them free up resources for critical health and economic support to respond to the COVID-19 pandemic. While the IMF targeted $1.4 billion in grant fundraising to enable the CCRT to provide financial assistance and address pre-COVID underfunding, it raised only $0.8 billion, leaving CCRT resources critically underfunded.

- *Common Framework.* The IMF plays a key role in the Common Framework, as countries must obtain an Upper Credit Tranche (UCT) program along with a debt sustainability analysis by the IMF to be eligible for debt treatment under the Common Framework. As of end-2022, four countries (Chad, Ethiopia, Ghana, and Zambia) have applied for debt treatment under the Common Framework.

    - Chad requested debt treatment in January 2021, and an IMF program was approved in December 2021 following the provision of financing assurances by official creditors. Creditors agreed on the debt treatment in November 2022.

    - Ethiopia requested debt treatment in February 2021; at the time, it was under an existing IMF program. The program went off track in August 2021 due to the country's civil war, which led the creditor committee to pause its work.

    - Zambia requested debt treatment in February 2021 and IMF staff reached agreement on a program in December. Board approval of the program was delayed until August 2022, following the formation of an official creditor committee and the provision of financing assurances.

    - Ghana is the fourth country to request debt treatment under the Common Framework, doing so in December 2022 upon reaching a staff-level agreement on an IMF program.

  The IMF and G20 continue to actively engage in conversations on strengthening the Common Framework and providing more support to debt-distressed countries.

- *Debt Transparency and Sustainability*. The IMF continues to work with international partners to support debt transparency and sustainability. Jointly with the World Bank, the IMF continues to implement the Multi-Pronged Approach to Address Debt Vulnerabilities (MPA), which is the IMF and 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 TA support to borrowers. The IMF has rolled out its Debt Sustainability Analysis for Market-Access Countries that would help IMF staff produce more accurate assessments of debt risks and sustainability and will start the groundwork for a

[2] 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.

[3] 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.

review of its Debt Sustainable Framework for LICs. The IMF in 2022 also formally reviewed its sovereign arrears policies and adopted amendments to support a more effective, orderly, and transparent resolution of sovereign debt difficulties in member countries. In addition, the IMF continued to actively promote debt transparency and sustainability workstreams in the G20's International Financial Architecture Working Group.

- *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. The IMF is currently implementing its digital money strategy, endorsed by the IMF 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. Over 40 countries have approached the IMF to request assistance through Central Bank Digital Currency (CBDC) TA. The IMF is seeking to create a "living" CBDC Handbook reflecting evolving experiences, findings, and policy views as a reference for policymakers and central bank experts, particularly in emerging market and developing economies by the Annual Meetings this year. It is in the United States' interest that the IMF promote sound macro-financial policies with members engaging in digital payments/currencies. Treasury will engage with the IMF to press for TA in the digital space that is consistent with U.S. values, including on physical, cyber, and financial risk mitigation from new technologies. Treasury will also press IMF staff so that any increase in TA for digital currencies does not divert resources from core areas such as financial regulation and monetary policy.

- *Capital Flows.* The IMF in 2022 reviewed the Institutional View (IV) on the Liberalization and Management of Capital Flows, adopted in 2012, integrating recent academic literature and the IMF's Integrated Policy Framework into the IV. The Review reaffirmed the core principles that capital flows provide significant benefits, and that capital flow measures (CFMs), macroprudential measures, and other tools should not be used as substitutes for warranted economic adjustments. The Review made two changes to the IV – the first recognizes that preemptive capital/macroprudential inflow measures may be appropriate in limited circumstances where systemic financial risks are elevated and policy space is constrained; the second recognizes that certain CFMs, such as those adopted solely for national or international security reasons, or based on internationally recognized standards, should not be analyzed under the IV.

- *Multiple Currency Practices (MCPs).* The IMF reviewed its MCP policy in 2022 for the first time in 41 years. The prohibition of MCPs is one of the original provisions of the IMF's Articles of Agreements as part of a larger effort to eliminate restrictions on current international payments and transfers. The 2022 Review revised the methodology by which the IMF determines an exchange rate spread has occurred to consider country-specific factors and account for intraday trading. The IMF also removed "potentiality" such that measures will only violate the IMF's MCP policy if they actually result in an impermissible spread. IMF staff also enhanced their current, cooperative approach in addressing members who are noncompliant, discussing MCPs more prominently in the main body of their staff reports as part of their regular surveillance of member countries, as well as preparing annual reports to the IMF Executive Board on current MCPs.

- *Steering Group on Institutional Safeguards.* In October 2021, the IMF Executive Board established a Steering Group to undertake a review of the IMF's institutional safeguards, following a review of issues related to the World Bank's 2018 Doing Business Report. The Review of Institutional Safeguards incorporated input from the Executive Board, IMF staff, and independent experts, and focused on ensuring staff, management, and the Executive Board maintain the highest possible standards around governance, use of data, and accountability. On June 30, 2022, the Executive Board discussed the Review's findings, which were made public. On December 15, 2022, the Executive Board approved the Implementation Plan in response to the Review's findings and recommendations, which sets out a comprehensive package of policy and process reforms. The Implementation Plan seeks to raise the level of the IMF's institutional safeguards in the following areas: data and analytical integrity; leadership; building trust and increasing transparency in the dispute resolution and integrity framework; and strengthening the dispute resolution system and its processes. The Steering Group continues to oversee implementation of some aspects of the Implementation Plan.

- *Fragile and Conflict-Affected States (FCS).* In 2022, the IMF Executive Board approved a new FCS strategy developed based on extensive consultations with the members, the World Bank and MDBs, and other partners and stakeholders. The Strategy proposes a framework and a set of measures that will allow the IMF to address FCS challenges and be better positioned to support the IMF's most vulnerable members.

- *Mainstreaming Gender.* In 2022, the IMF Executive Board approved the IMF's first strategy toward mainstreaming gender into the IMF's core activities. The strategy comprises four key pillars: gender-disaggregated data collection and development of modeling tools to enable staff to conduct policy analysis; a robust governance framework for an evenhanded approach across members based on the macro-criticality of gender; strengthening collaboration with external partners to benefit from knowledge sharing and peer learning, leverage complementarities, and maximize the impact on the ground; and the efficient use of resources allocated to gender by putting in place a central unit for realizing scale economies and supporting country teams.

IMF Priorities in 2023

In addition to supporting the IMF's financial assistance in response to the economic and financial spillovers from Russia's war against Ukraine, as well as other global economic shocks, Treasury is engaging with the IMF on several policy priorities in 2023, including:

- *Debt and the Common Framework.* The IMF, with support from the World Bank, is advancing ongoing work to enhance debt transparency, develop guidelines on the use of collateralized debt, assist countries in improving debt management, promote more timely information-sharing of debt sustainability analyses, and develop process improvements to the Common Framework and debt restructuring for LICs and MICs. As part of those efforts, in

2023, the IMF and World Bank launched a Global Sovereign Debt Roundtable to build greater common understanding among key stakeholders involved in debt restructurings, and work collectively on the current shortcomings in debt restructuring processes.

- *16th General Review of Quotas (GRQ).* The IMF Board expects to complete the 16th GRQ by mid-December 2023. Quota is roughly commensurate with a country's vote share at the IMF and broadly reflects a country's relative position in the global economy. The United States is the largest shareholder at the IMF with a quota share of 17.4% and a 16.5% vote share, above the IMF veto threshold of 15% for major institutional decisions. A GRQ occurs once at least every five years. The Review considers the adequacy of IMF resources and the size and allocation of quota resources at the IMF. The IMF's overall resources are made up primarily of quota resources supplemented by borrowed resources from participating countries under the NAB and individual borrowing agreements under the Bilateral Borrowing Agreements (BBAs). The NAB and BBAs serve as the first and second backstops, respectively, if the IMF's quota lending capacity comes under strain.

- *Temporary Increase in General Resources Account (GRA) Access Limits.* In March 2023, the IMF Executive Board approved increases to countries' normal access borrowing limits under the GRA for one year, raising normal access limits from 145% of quota annually and 435% cumulatively to 200% and 600%, respectively. This will allow some members with exceptional needs and limited sources of financing to receive greater IMF support over the next year given the uncertain global economic environment. IMF staff and Treasury will continue to apply prudent oversight and a diligent application of the normal policy criteria for determining a country's potential access to IMF resources. The IMF Executive Board did not revise access limits for concessional financing through the PRGT. The IMF Board had temporarily increased annual normal access levels for both GRA an PRGT borrowing during the COVID-19 pandemic in 2020. Normal access limits for the PRGT were permanently increased in 2021 to match the normal access limits for the GRA.

- *Governance Issues.* The IMF continues to allocate budget resources to TA programs to enhance members' ability to fight corruption. In early 2023, the IMF Executive Board reviewed implementation of the IMF's 2018 Framework for Enhanced Fund Engagement on Governance. The 2018 Framework 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. The Review found that IMF engagement with member countries on governance and corruption has been broadly systematic, candid, effective, and evenhanded, in line with the objectives of the 2018 Framework. The Review also provided concrete proposals to strengthen engagement in these areas, guided by macro-criticality and the core expertise of the IMF.

- *Exceptionally High Uncertainty Policy.* In March 2023, the IMF Executive Board approved changes to the IMF's financing assurances policy to address situations of "exceptionally high uncertainty," involving exogenous shocks that are beyond the control of country authorities and the reach of their economic policies, and which generate larger than usual tail risks. The policy change allows a member experiencing such conditions to receive a UCT program by enhancing IMF safeguards and allowing official bilateral creditors to provide an upfront credible assurance to deliver debt relief and/or financing along with a contingent second-stage element of debt relief and/or financing once the exceptionally high uncertainty is resolved. The policy change also extends the use of capacity-to-repay assurances from emergency financing to UCT arrangements. Ukraine's Extended Fund Facility (EFF) program, approved on March 31, 2023, relied on this policy change.

IMF Activities to Prevent Money Laundering and Financing of Terrorism

Following the IMF Executive Board's comprehensive 2018 review of the IMF's AML/CFT strategy, 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 2022, the Executive Board approved programs for Benin, Egypt, Mozambique, and Zambia that included conditionality aimed at strengthening governance, anti-corruption, and/or AML/CFT frameworks and supervision. The IMF has also provided TA 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 approximately 182 projects in 95 countries, helping to support the removal of around ten countries from the FATF's enhanced monitoring list. The United States, through the U.S. Executive Director, has consistently pressed for increased internal IMF resources to support AML/CFT work among IMF member countries. Looking ahead, the IMF expects to increase its AML/CFT assistance budget to $9.4 million in FY 2023 amid high TA demand, settling to $5.4 million in FY 2025 as TA work returns to a post-pandemic norm. In addition, the AML/CFT Thematic Fund launched 13 country projects, two regional projects, four thematic projects, and five analytics and development projects since November 2020 across capacity development activities.

IMF's Administrative Issues

The IMF employs approximately 3,000 people and has an annual administrative budget of about $1.3 billion. At the consistent urging from the United States and like-minded Executive Board members, the IMF maintained a flat real administrative budget for eight years through FY 2022.[4] To improve the IMF's ability to meet its core mandate to foster international financial stability, in 2022, the IMF Executive Board approved a three-year structural budget increase of 2% per year to address emerging issues called for by its membership. In 2023, the IMF Board approved the second year's 2% real budget increase for FY 2024. Spending in FY 2026 and thereafter is expected to revert to a flat real budget envelope.

Conclusion

The IMF has taken steps over the past year to provide financial assistance to members that are most vulnerable to the impacts from Russia's war, lingering economic and health impacts of the COVID-19 pandemic, and other economic shocks. Regular reviews and adjustments of IMF policies help to maximize the IMF's institutional effectiveness, protect it from incurring losses,

[4] The IMF fiscal year starts on May 1.

and thereby decrease the risks to U.S. resources. The IMF also plays an important role in mitigating and responding to economic and financial sector crises, which helps to limit potential spillovers to the United States. Looking ahead, amid heightened economic uncertainty, the IMF is aiming to prioritize efforts to safeguard financial stability, improve medium-term prospects for growth, and reduce global disparities.

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 2022. In 2022, the MDBs of which the United States is a member provided approximately $154 billion in funding to developing countries. Through their financing, policy advice and technical assistance, the MDBs are vital to global efforts to reduce poverty, increase broad-based economic growth and job creation, develop sustainable infrastructure, modernize health systems, enhance food and energy security, promote private sector development and entrepreneurship, improve governance and public financial management, build human capital, foster economic and social inclusion, and build resilience. MDB grants and concessional lending are an important and reliable source of financing for the development needs of the poorest and most fragile countries, particularly those most affected by conflict and disaster. By providing financial support and technical assistance for such countries, MDB assistance helps to prevent and alleviate economic crises overseas, which in turn safeguards the U.S. economy and national security from potential spillovers.

MDBs are among the leading catalysts of infrastructure finance globally, investing billions in quality infrastructure, and supporting developing countries in mobilizing billions more in private capital. They played a leading role in the global response to the COVID-19 pandemic, marshalling resources and expertise quickly to help developing countries address the health and economic impacts of the pandemic. They also assist developing countries in responding to shocks, such as the devastating effects of Russia's brutal war on Ukraine, by providing critical finance to sustain agricultural production and manage the impact of sudden spikes in energy and food prices on the poor. Additionally, they provide an alternative to low quality financing from malign actors, address the root causes of instability in fragile and conflict-affected states, and help grow U.S. exports by boosting growth in emerging and frontier markets. These efforts by the MDBs help to advance U.S. foreign policy objectives of sustaining peace and stability, promoting security, and protecting the global environment. And, with U.S. leadership, these institutions and programs reflect and promote American values related to good governance, transparency, and sound debt management.

Financing through multilateral institutions brings significant advantages to the United States and is an effective way to stretch limited development dollars. Specifically, U.S. taxpayer contributions to the MDBs catalyze contributions from other shareholders, the MDBs' internally-generated resources, and funding from capital markets to significantly increase the assistance levels that the MDBs provide. MDBs offer a wide range of instruments, including grants, loans, guarantees, equity, insurance, and knowledge products. This array of instruments can help de-risk and incentivize private sector investments that support U.S. development priorities in emerging markets.

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 2022, the United States has called on the MDBs to play leading roles on a number of issues important to the United States, and to undertake reforms in key areas, including the following:

- *MDB Evolution*. The United States launched an effort to evolve and invigorate the MDBs to better address the most complex transboundary challenges facing the world today, such as climate change, pandemics, and fragility and conflict. In its initial phase, the MDB evolution initiative has focused on reforms at the World Bank to evolve its mission and vision, incentive structures, operational model, and financial capacity, to strengthen the effectiveness of delivering its objectives of poverty reduction and achieving the Sustainable Development Goals.

- *Russia's War on Ukraine*. Since Russia's invasion of Ukraine last year, the World Bank Group and the European Bank for Reconstruction and Development have programmed billions of dollars in assistance to Ukraine. These institutions have provided significant support to the immediate crisis response in Ukraine, including food security, through support for vital infrastructure in transport and logistics as well as direct finance to farmers and producers; energy security needs; and support for vulnerable populations and internally displaced persons. The MDBs have also provided strong countercyclical support to developing countries to help address the economic and financial fallout of Russia's invasion.

- *Infrastructure*. The MDBs are among the leading catalysts of infrastructure finance globally. Collectively, the MDBs of which the United States is a member approved over $46 billion in infrastructure finance in 2021, which amounted to about a third of their total financing approvals that year. These institutions are critical to delivering on the G7's Partnership for Global Infrastructure and Investment, which seeks to deliver game-changing projects to close the infrastructure gap in developing countries, strengthen the global economy and supply chains, and advance global security. Much of the MDBs' most important work to enhance infrastructure investment is not captured in financing totals; this includes technical assistance to prepare projects for investment, structure effective public-private partnerships, and build institutional capacity within local governments. MDB technical advisors are also key resources to aid countries in crafting necessary policy reforms that lay the groundwork for better delivery of public services and a greater influx of private investment. These reforms are especially critical in the energy sector, where regulation is often a critical barrier to effecting the energy transition and fostering greater energy security.

- *Food Security*. Even before Russia's invasion of Ukraine exacerbated volatility 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. In response to the shock from Russia's invasion of Ukraine, the United States called for a stepped-up response and the MDBs delivered in May 2022 with the *IFI Action Plan to Address Food Insecurity*. Since then, the World Bank committed $30 billion to address immediate needs, as well as longer-term challenges, and the African Development Bank committed $1.5 billion to its African Emergency Food Production Facility, which will provide 20 million smallholder farmers with certified seeds and increase access to fertilizers. The U.S. contribution of $155 million to the Global Agriculture and Food Security Program (GAFSP)[5] supported a call for proposals responding to the shocks from Russia's invasion of Ukraine. The call prioritized country-led projects focused on increasing access to quality inputs, diversifying food systems, promoting quality standards, reducing food loss and waste, and supporting the introduction of climate-resilient land and water management practices.

- *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 and to build adaptation measures into their projects and sector strategies. 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 ensuring energy security and access. The MDBs are aligning their financial flows with the goals of the Paris Agreement to reach net zero by mid-century and address resiliency and adaptation needs, particularly for the most vulnerable, through enhanced project screening. In key countries, MDBs are providing sectoral, technical, financial, and project expertise and leadership for the Just Energy Transition Partnerships (JETPs).

- *Private Capital Mobilization*. MDB resources will never be enough to meet the world's development financing needs, and the MDBs have a critical role to play in the mobilization of private capital for that purpose, which they did to the tune of nearly $54 billion in 2019, the latest available data.[6] In 2022, the U.S. Treasury Secretary twice convened MDB leaders to urge them to scale up their ambition for private capital mobilization in line with G7 Partnership for Global Infrastructure and Investment (PGII) and climate finance goals, set ambitious private capital mobilization targets, and create implementation plans for achieving them. Treasury leadership also pushed the MDBs to adopt and expand innovative tools to mobilize private capital and sought to support them where appropriate.

- *Risk Mitigation*. U.S. engagement is critical to mitigating risks in MDB investments. In the case of forced labor, U.S. leadership has been critical to minimizing the risk that the supply chains of MDB projects, and the MDBs themselves, use products produced with forced labor. The MDBs are working together and with other relevant financiers to improve their due diligence, and they are working towards improved traceability regimes to rid development projects of procuring any projects made with forced labor. And, with respect to 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

[5] GAFSP is a World Bank financial intermediary fund (FIF) that pools donor funds and channels them 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 WBG, are eligible to receive assistance from the International Development Association (IDA) only.

[6] Latest data available is from 2019. Private capital mobilized by ADB, AfDB, EBRD, IDB (IDB and IDB Invest), and World Bank Group (IBRD, IDA, MIGA, IFC) totaled $53,949,000,000. Source: *Mobilization of Private Finance by Multilateral Development Banks and Development Finance Institutions, 2019.*

management to strengthen procurement rules to reduce the potential for vendors that offer serious cybersecurity risks to win MDB-financed contracts.

During 2022, the United States worked to improve performance by driving reforms across all MDBs. These efforts included 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 improve policy environments to support private investment and capital inflows effectively; strengthening incentives for countries to increase their debt management capacity and transparency; increasing assistance for the poorer countries with limited access to private capital; and preparing countries for sustainable recoveries from the COVID-19 pandemic. In addition, the United States advocated for the MDBs to continue improving their frameworks for procurement to favor life-cycle costing, fit-for-purpose criteria, and value-for-money, and financial discipline to bolster financial sustainability.

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 these institutions 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 helps projects achieve better development and financial outcomes than 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 from Congress. Treasury looks forward to engaging with Congress on how to modify mandates or reports that reduce our influence in the MDBs or that do not support achievement of intended policy goals.

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

World Bank Group (WBG)

Performance in 2022: During the World Bank's fiscal year 2022 (FY 2022, covering July 2021 through June 2022)[7], the WBG committed a total of $97 billion in loans, TA, concessional credits, grants, equity investments, and guarantees. In 2022, the WBG provided over $23 billion for infrastructure investment in developing countries.

- **The International Bank for Reconstruction and Development (IBRD)** committed $33.0 billion in assistance to MICs to promote broad economic growth and reduce poverty. The Latin America and Caribbean region received the largest portion of IBRD's new commitments at $9.4 billion (28%), followed by Europe and Central Asia at $6.0 billion (18%) and South Asia at $4.8 billion (14%). India, Indonesia, and Colombia were the top three borrower countries in FY 2022. The largest sectors for IBRD investments were social

[7] Unless otherwise noted, reporting is for World Bank fiscal year 2022.

protection and health ($9.7 billion, or 29%), infrastructure[8] ($8.4 billion, or 25%), and public administration ($6.5 billion, or 20%).

- **The International Development Association (IDA)** committed $37.3 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 2022 at $27.5 billion (73%), followed by the South Asia region at $4.2 billion (11%). Nigeria, Bangladesh, and the Democratic Republic of the Congo were the top three IDA recipients in FY 2022. In July 2022, IDA began the first year of a three-year cycle under its 20th replenishment, which began one year earlier than planned in response to the fallout from COVID-19. The largest sectors for IDA investments were social protection and health ($9.1 billion, or 24%), infrastructure ($12.5 billion, or 33%), and public administration ($6.2 billion, or 16%).

- **The International Finance Corporation (IFC)**, the main private sector arm of the World Bank, committed $12.6 billion in long-term investments from its own resources. The IFC mobilized an additional $10.6 billion from other investors for development projects. The IFC also increased its trade finance commitments, which totaled $9.7 billion in 2022 and 75% of which went to IDA countries and fragile and conflict-affected countries. The IFC spent $251 million on advisory services in 2022, with sub-Saharan Africa receiving $98.7 million (39%). IFC is increasingly orienting its advisory services to building a pipeline of projects in IDA and fragile and conflict-affected countries.

- **The Multilateral Investment Guarantee Agency (MIGA)** provided $4.9 billion in guarantees for political risk insurance and credit enhancement, which helped mobilize over $6.5 billion in total financing. Of MIGA's FY 2022 projects, 33% were in IDA and fragile and conflict-affected countries.

<u>Key Institutional Reforms and Initiatives</u>: In 2022, the United States supported the implementation of several key initiatives and reforms at the World Bank, above and beyond its lending activities.

- *MDB Evolution*. In late-2022, the World Bank published an Evolution Roadmap in response to the call from shareholders for the institution to evolve to better address global challenges like climate change, pandemics, and fragility and conflict. This Roadmap was an important step in launching the evolution process, which has progressed steadily during 2023.

- *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 its FY 2022, the World Bank continued its efforts to strengthen IBRD financial sustainability, such as differentiating loan prices according to country income (which provided IBRD with $33 million in additional income in FY 2022) and increasing lending to lower-middle income countries. It also moved forward with ambitious climate lending and investment targets

[8] This includes investments in energy, information and communications technology, transportation, and water and sanitation.

agreed as part of the package. Treasury assesses that the Bank made less progress enforcing IBRD's graduation policy and reducing lending to China, though IBRD commitments to the country are on a downward-sloping trajectory, falling to $1.1 billion in FY 2022 from around $1.2 billion in FY 2021 and FY 2020. The Country Partnership Framework negotiated in 2019 stated that China would receive 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 2022, Bank Management and the Board agreed on a $5 billion crisis buffer, which allowed for additional support to countries impacted by COVID-19. In combination with front-loading of planned lending and cancellations or reprogramming of existing loans, this buffer size allowed the IBRD to commit $33 billion in FY 2022 compared to $30.5 billion in FY 2021.

- *Climate Change*. For FY 2022, the IBRD and IDA reported that $26.2 billion of its financing (about 37%) provided climate co-benefits, and of this, $12.9 billion was for adaptation. The IFC increased its climate investments to 35% of its own-account long-term financing commitments in FY 2022. IBRD and IFC maintained 100% compliance with climate risk screening in FY 2022. The World Bank published its first Country Climate Development Report, a new core diagnostic tool that will help countries align climate action and development efforts and will provide a strong analytical base to inform WBG country engagements. IBRD and IFC investment operations in key emission producing sectors incorporated the shadow price of carbon in economic analyses, applied GHG accounting, and provided for annual disclosure of GHG emissions.

- *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 countries. As part of its 2018 capital package commitments, the IFC committed to increase lending to IDA and fragile and conflict-affected (FCS) countries to 40% of its total lending by 2030. In FY 2022, IFC's long-term commitments in IDA and FCS countries had reached 28% of total commitments, up from 25% of the total in FY 2021. IFC's performance on short-term finance to IDA and fragile and conflict-affected countries fared better in FY 2022, reaching 75% of total short-term financing for the year, compared to 67% in FY 2021.

- *The Accountability Agenda.* The United States worked to strengthen accountability at both the World Bank and IFC/MIGA during World Bank FY 2022. In 2020, an independent dispute resolution mechanism was established and in 2021 the first Accountability Mechanism Secretary was hired. The year under review included establishment of interim operating procedures for the new mechanism and its dispute resolution function, and initial work on the permanent operating procedures. It also included the initiation of the first dispute resolution case under the new mechanism. Following approval by the Boards of IFC and MIGA of a new accountability policy for these institutions in June 2021, in the year under review, the Compliance Advisor Ombudsman (CAO) focused on transitioning to the new policy and making progress on its caseload. In addition, IFC/MIGA undertook initial work on the recommendation of an external review panel to establish a framework for remedy and to develop principles for responsible exit.

2023 Priorities: During 2023, the United States is pursuing the following priorities across the WBG in 2023:

- Evolution reforms to the WBG to better address global challenges like climate change, pandemics, and fragility and conflict with speed and scale through reforms to the Bank's:
    - Mission statement to better integrate global challenges into the Bank's core priorities of eradicating extreme poverty and boosting shared prosperity;
    - Financial model to stretch its balance sheets and pursue innovative measures to create additional lending capacity for global challenges;
    - Operational model to address institutional constraints to providing financing for global challenges and make changes to the Bank's existing culture; and
    - Incentive structures to spur country demand for financing to address global challenges.
- 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, with the World Bank hosting the Pandemic Fund, 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 the 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.

- 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

<u>Performance in 2022</u>: The following section summarizes AfDB Group activity during the period between January 1, 2022 through December 31, 2022.

- AfDB Group financing approvals (including special resources) totaled $8.1 billion in 2022. Approvals from the AfDB window (the window for non-concessional sovereign and private sector lending) were $5.1 billion. Financing approvals from the African Development Fund (AfDF), the AfDB Group's concessional window, including through the Transition Support Fund, were approximately $3.0 billion.

- In 2022, the largest sectors for AfDB Group investments were power (20%), transportation (27%), finance (18%), and agriculture (13%). The AfDB Group provided approximately $2.6 billion in climate finance in 2022.

- Distribution of total AfDB Group approvals in 2022 by sub-region were as follows: West Africa (37%), East Africa (27%), Southern Africa (15%), Central Africa (6%), North Africa (14%), and multi-regional operations (1%). The four largest recipients of AfDB Group assistance in 2022 were Nigeria, Sudan, Morocco, and Egypt.

- The share of AfDB non-sovereign operations increased to 22% in 2022, up from 9% in 2020, reflecting, in part, a rebound in private sector activity as Africa emerges from the pandemic.

- 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 boosts trade, leverages business climate reforms, supports local small- and medium-sized enterprises (SMEs), and contributes 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 and Initiatives</u>: In 2022, the AfDB Group worked to respond to the food security challenges resulting from Russia's war against Ukraine while implementing the reform commitments agreed under the Seventh General Capital Increase (GCI-VII) and negotiating policy and financing commitments under the Sixteenth Replenishment of the African Development Fund (AfDF-16).

- *Improved Financial Sustainability*. The Board of Directors approved policies for updated loan pricing and a cost containment framework to better ensure that the Bank Group can cover its operational expenses through operational revenues, and authorized AfDB to explore use of hybrid capital to strengthen the Bank's finances while increasing available resources for clients.

- *Debt Sustainability*. The Board of Directors approved a Bank Group Sustainable Borrowing Policy that harmonizes with the World Bank and IMF to improve borrowers' debt management and transparency.

- *Food Security*. The African Emergency Food Production Facility helped to meet borrowers' food security needs with $1.4 billion of assistance in response to the food and fertilizer price shocks, while maintaining high accountability.

- *Operational Selectivity*. The AfDB continued to work on greater operational selectivity to focus on its areas of comparative advantage.

- *Governance*. The Board of Governors and Directors approved updates to the Code of Conduct and Whistleblower Policy to improve the predictability and functioning of the complaint reception and investigation procedure systems.

- *Fragility*. The Board of Directors approved a new strategy on Addressing Fragility and Building Resilience to guide Bank operations in fragile, transitioning, and conflict-affected countries in order to address root drivers of instability.

<u>2023 Priorities</u>: Key U.S. priorities for the AfDB in 2023 are:

- Evolving the AfDB Group to better tackle global challenges through its Ten-Year Strategy and reforms to its vision, incentive structure, operational approach, and financial capacity, with reforms to financial capacity coming through implementation of G20 MDB Capital Adequacy Framework (CAF) recommendations.

- Monitoring the AfDB's capital adequacy, cost efficiency, and other key financial ratios; determining how best to balance prudent financial management with regional demands for countercyclical lending; and exploring how financial innovation can responsibly expand resources available to borrowers, such as the through AfDB Hybrid Capital and the AfDF proposal to leverage equity through market borrowing.

- Strengthening institutional governance through a Board of Directors committee-led Review of the independence of oversight and accountability units, which will inform improvements in the strength of the audit, evaluation, integrity and redress units.

- Working with the Board to develop a new AfDB energy strategy that helps drive greater access to clean and reliable energy and aligns with Treasury's MDB fossil fuel guidance.

- Adopting a new, strengthened environmental and social safeguards policy that is consistent with other MDBs' best practice approaches and strengthens safeguards implementation.

- Encouraging the AfDB and AfDF to improve their ability to support private sector operations and private capital mobilization for high-quality infrastructure, particularly for climate, health, digital, and gender, to complement resources raised through donor contributions.

Asian Development Bank (AsDB)

<u>Performance in 2022</u>: The following section summarizes AsDB activity during the period between January 1, 2022 through December 31, 2022.

- Total AsDB financing commitments in 2022 were $20.5 billion. Commitments from AsDB's regular ordinary capital resources (non-concessional financing) were $13.4 billion, while commitments for concessional ordinary capital financing were $3.14 billion. Grants from the Asian Development Fund (AsDF) and other special funds, which are provided to eligible low-income AsDB members, totaled $945 million, while TA provision totaled $257 million.

- AsDB non-sovereign operations accounted for about 6% of total financing commitments, and the Bank complemented its own resources through mobilized co-financing that totaled $11.4 billion in 2022.

- The top five recipient countries of AsDB sovereign financing in 2022 were the Philippines ($2.5 billion), Indonesia ($1.9 billion), India ($1.8 billion), China ($1.6 billion), and Pakistan ($1.4 billion).

- In 2022, the largest sectors for AsDB investments were finance (28%), transportation (21%), public sector management (18%), agriculture (11%), and energy (7%).

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

- *Climate Change*. In 2022, AsDB provided $6.7 billion for climate change mitigation and adaptation, reaching $21 billion cumulative financing for 2019–2022 and advancing toward the ambition of providing $100 billion by 2030. It also established the Energy Transition Mechanism Partnership Trust Fund to accelerate the region's transition away from coal-based power and launched the world's first Blue Bond Incubator to support ocean-related projects. AsDB was selected by the Government of Indonesia and a group of international partner countries to serve as the institutional support to the Indonesia JETP. In this role, AsDB builds the organizational structure for this $20 billion energy infrastructure initiative, driving JETP deliverables and financing of projects.

- *Boosting Capacity*. To mobilize greater resources, AsDB signed an agreement for up to $1 billion with five leading insurers that will unlock more private sector financial institutional lending and a second exposure exchange agreement for $1.5 billion with the Inter-American Development Bank.

- *Safeguards*. In 2022, AsDB made significant progress in updating its Safeguard Policy Statement, completing 18 analytical studies and conducting more than 80 consultations involving 3,000 people from government, civil society organizations, the private sector, and project-affected communities. The updated policy is expected to integrate approaches to managing environmental and social risks, including climate risks, with enhanced focus on gender issues and poor, vulnerable, and disadvantaged people.

- *Organizational Review*. In 2022, the Board of Directors endorsed the *Organizational review – A New Operating Model to Accelerate ADB's Transformation Toward Strategy 2030 and Beyond*. The new model adapts the institutional structures and processes in place to increase AsDB's efficiency, effectiveness, and relevance so that it continues to be the premier multilateral development bank in Asia and the Pacific.

2023 Priorities: Key U.S. priorities for the AsDB in 2023 are:

- Evolving the AsDB to better tackle global challenges, like climate change, pandemics, and fragility and conflict through reforms to its vision, incentive structure, operational approach, and financial capacity, with reforms to financial capacity coming through implementation of CAF.

- Improving the AsDB's management of income and capital to improve its financial sustainability and better direct its resources toward the most developmentally impactful activities, along with accelerating growth in its non-sovereign activities and strengthening private capital mobilization.

- Maintaining continued strong AsDF support for the Afghan people, while exercising prudence, flexibility, and creativity in the AsDF approach.

- Maintaining continued strong AsDF support for the Pacific Islands states that recognizes their unique development challenges and vulnerabilities.

- Increasing AsDB's financing for climate adaptation and mitigation projects and aligning projects with the goals of the Paris Agreement.

- 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, including through continued U.S. and AsDB leadership in the Indonesia JETP.

- 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.

- A continued deceleration 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)

Performance in 2022: The following section summarizes EBRD activity during the period between January 1, 2022 and December 31, 2022.

- EBRD investments in 2022 totaled $13.8 billion. Top recipient countries of EBRD investments were Turkey (13%), Ukraine (11%), Egypt (10%), Poland (8%), Uzbekistan (6%), and Greece (5%).

- In 2022, 74% of total business volume was with the private sector and was concentrated in financial institutions (43%); sustainable infrastructure (30%); and industry, commerce, and agribusiness (27%).

- In 2022, the EBRD continued its strong support for Ukraine, deploying over $1.8 billion, including $460 million in cumulative turnover under the trade facilitation program.

- The EBRD invested a total of $6.7 billion to support the transition to a green economy, or 50% of total financing. This included $6.2 billion in climate change mitigation activities and $259 million to support climate change adaptation.

- In 2022, the EBRD signed over 158 gender-focused projects, 37% of the number of projects signed in the year.

- In 2022, the size of EBRD's combined portfolio in Russia and Belarus after transfers decreased by 38%, with further transfers expected in 2023.

Key Institutional Reforms and Initiatives: In 2022 and early 2023, EBRD continued to implement key initiatives, in addition to carrying out its regular lending activities.

- *Support for Ukraine*. 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. The EBRD plans to invest a total of $3.2 billion in Ukraine over 2022-2023.

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

- *Working with the United States to Support Ukraine*. On May 21, 2022, the U.S. Congress appropriated $500 million for the EBRD in the Additional Ukraine Supplemental Appropriations Act, 2022 (P.L. 117-128). On August 1, 2022, the U.S. Treasury disbursed a first tranche contribution of $335 million to the United States Ukraine Response Platform Individual Sub-Account under the EBRD's Crisis Response Special Fund (CRSF). On November 30, 2022, the U.S. Treasury disbursed the second and final tranche contribution of $165 million to the CRSF. As of April 2023, the EBRD had allocated almost all of the funds. The funding included guarantees for vital energy and power projects; liquidity to financial institutions to support small and medium-size enterprises (SMEs), agribusinesses, and other crucial economic activity; municipal-level support to provide essential services; projects to support grain transport and storage; and transfers to technical cooperation funds.

- *Paris Alignment*. Starting in January 2023, 100% of the EBRD's activities aligned with the goals of the Paris Agreement. In September 2022, the EBRD's 2,800 London-based staff relocated to a new headquarters, one of the most environmentally advanced buildings in the United Kingdom.

- *Digitization*. In January 2022, the EBRD established a Digital Hub to maintain and coordinate digital activities and in May 2022 launched the Digital Approach to support digital transition, adaption, and innovation.

- *Gender Equality*. At COP27, the EBRD unveiled the Gender Equality in Climate Action (GECA) initiative, including a new tool – the GECA Accelerator – to help companies across sectors improve the gender responsiveness of their corporate climate governance.

<u>2023 Priorities</u>: Key U.S. priorities at the EBRD in 2023 are:

- Continuing to press the EBRD to mobilize and provide robust support to Ukraine and countries impacted by Russia's invasion of Ukraine, including through negotiations on a potential capital increase.

- Overseeing EBRD's use of the $500 million appropriated by Congress for Ukraine.

- Maintaining momentum toward the EBRD's limited and incremental expansion into sub-Saharan Africa and Iraq, while ensuring that the expansion will not require additional capital and will complement the work of existing development partners.

- Ensuring that that the EBRD continues to support all of its countries of operation, but especially those least advanced in transition, including through inclusive and green investments and by accelerating the digital transition.

- Supporting and expanding the EBRD's efforts to mobilize private capital in support of development priorities.

- Emphasizing the need for the EBRD to remain focused on its core mandate to support private enterprises in its current countries of operations.

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

- Implementing the applicable CAF recommendations, including increasing the flexibility of the EBRD's capital adequacy framework, considering the issuance of hybrid capital, and enhancing risk sharing with the private sector.

Inter-American Development Bank (IDB) Group

Performance in 2022: The following section summarizes IDB Group activity during the period between January 1, 2022 and December 31, 2022.

- The IDB approved about $12.1 billion in public sector loans and grants in 2022 to its 26 borrowing member countries in Latin America and the Caribbean. In addition to these financial commitments, the IDB supported about $1.9 billion of IDB Invest non-sovereign guarantee financing, and approved $262 million in TA, including $116 million funded by the Bank's ordinary capital resources.

- Top recipients of IDB sovereign lending in 2022 were Argentina (20.7%), Mexico (10.7%), Brazil (9.1%), Peru (6.4%), and Chile (5.8%).

- IDB's 2022 sovereign lending was distributed across multiple sectors, with the largest amounts going to fiscal sustainability, competitiveness, and access to credit – which the IDB labels "institutions for development" (42%); infrastructure and the environment (36%); and social sector programs (15%).

- IDB Invest (also known as the Inter-American Investment Corporation), the arm of the IDB Group that solely focuses on the private sector, approved about $8.4 billion in loans and equity investments in 2022. Total approvals were distributed across the following sectors: infrastructure and energy (25% of approvals); corporate sector (30%); and other sectors through financial institutions (44%).

- IDB Lab (also known as the Multilateral Investment Fund) approved $96 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.

- IDB Governors elected a new President, Ilan Goldfajn, a Brazilian national, for a five-year term.

Key Institutional Reforms and Initiatives: Key reforms underway and continuing beyond 2022 include:

- *Capital Management*. The IDB signed a $1.5 billion sovereign exposure exchange agreement with the Asian Development Bank to strengthen its capital position and boost lending capacity.

- *IDB Group Reforms*. The IDB Group commenced an assessment of how to implement Group wide 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.

- *IDB Invest*: IDB Invest developed its new vision and business model, which proposes increased project preparation and technical assistance, greater mobilization of private capital, and augmented local currency financing. Governors approved this new vision and business model at the annual meeting in March 2023.

<u>2023 Priorities</u>: Key U.S. priorities at the IDB Group in 2023 are:

- Advancing IDB Group reforms mandated by Governors in early 2023 to: increase the Group's responsiveness to the development needs of all borrowing countries in Latin America and the Caribbean; improve the effectiveness of the Group's financing; foster the development of a vibrant private sector in the region; help address global and regional challenges; and promote more efficient use of the Group's financial resources. Some of these Group-wide reforms will also form the basis of the IDB Group's new Institutional Strategy, a draft of which will be completed by October 31, 2023, and focus on the following areas:

    - Improving lending instruments, including policy-based lending, to deliver greater development impact.

    - Increasing climate, green finance, and biodiversity ambitions by achieving targets of 35% for climate finance and 40% combined climate and green finance (with green finance referring to finance that relates to specific environmental objectives).

    - Addressing the development needs of populations in fragile, conflict and violence-affected, and vulnerable situations, and small island developing states.

    - Comprehensively addressing poverty, inequality of income and opportunities, reducing informality in the labor markets, and developing social protection, health and education, while promoting private and domestic resource mobilization, gender and diversity ambitions, and inclusion.

    - Updating the IDB's outdated country classification system so that more lending is allocated to the region's neediest countries, as well as high-income, but low-lying and climate vulnerable states.

    - Evolving the IDB Group to better tackle global and regional challenges, particularly those impacting small-island and low-lying states in the Caribbean.

    - Implementing applicable CAF recommendations.

- Advancing IDB Invest's capitalization proposal, a draft of which will be completed by September 30, 2023, and will focus on:
    - Enhancing the new IDB Invest business model for its potential to better leverage capital and improve third-party mobilization, particularly for climate and infrastructure development.
    - Increasing the financial and non-financial additionality in IDB Invest operations.
- Ensuring that the IDB Group Management's proposal for a fourth replenishment of the IDB Lab is financially sound and will enable the Lab to continue its support of entrepreneurship in the region.
- Increasing awareness among U.S. companies about procurement opportunities relating to IDB-funded projects.

North American Development Bank (NADB)

<u>Performance in 2022</u>: The following section summarizes NADB activity during the period from January 1, 2022 through December 31, 2022. Please also see Annex III: Report on the Performance Measures of the North American Development Bank.

- In 2022, NADB approved \$373 million in total financing across all programs, including \$357 million in loans, \$16 million in grants, and \$2.5 million in TA.
- 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 2022 was approximately 66% clean energy (primarily wind and solar), 13% water and waste management, 13% air quality (including public transportation projects), 2% basic urban infrastructure, and 5% COVID-19 recovery financing.
- NADB's outstanding loan portfolio was 31% in United States and 69% in Mexico. The portfolio was 25% public sector, 68% 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 \$16 million in grants approved in 2021, \$15.5 million was under BEIF and \$0.5 million was under CAP.

<u>Key Institutional Reforms and Initiatives</u>:

- *Ratings Affirmed.* In 2022, 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. In 2022, NADB engaged the Board on implementation of the new sectors and measurement of environmental benefits. The Bank will engage in these sectors while maintaining its traditional focus on water, wastewater, and solid waste projects.

- *Strategic Approaches to Water and Wastewater*. NADB continued to work with border communities, local governments, and partner organizations to address transboundary wastewater flows. NADB Management and the Board discussed how the NADB can take a more programmatic, strategic approach to investments in the water and wastewater sectors to increase the environmental benefits of projects in these sectors.

<u>2023 Priorities</u>: In 2023, key U.S. priorities for NADB are:

- Continuing to prioritize NADB's traditional areas of work while also identifying, developing, and investing in projects under newly eligible categories.

- Developing a new strategic plan to start in 2024.

- Adopting new environmental and social safeguards and gender policies.

- Selecting a new Managing Director and Deputy Managing Director.

- Navigating the evolving, but uncertain, energy sector policy environment in Mexico and potential impacts on NADB's renewable energy portfolio.

- Supporting continued work in helping address cross-border untreated wastewater flows in the Tijuana River basin and other watersheds along the border, including through more strategic approaches.

- 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 (IFAD)

The International Fund for Agricultural Development (IFAD) is a small IFI supported by 178 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 2022:

- In 2022, IFAD approved $882 million in projects and grants, and its total project portfolio currently amounts to $8.1 billion.

- The regional distribution of IFAD approvals in 2022 was: Western and Central Africa (37%); Eastern and Southern Africa (34%); Asia and the Pacific (22%); Latin America and the Caribbean (4%); and Near East and North Africa and Europe (3%).

- IFAD's current portfolio covered a range of sectors at end-2022, including access to markets (30% of IFAD financing); production sectors (25%); policy and institutions (15%); program management (including M&E and knowledge management) (13%); inclusive rural finance (11%), environment and natural resources (3%); and social services (2%).

Key Institutional Reforms: In 2022, IFAD implemented institutional decentralization and retooling intended to deepen its impact on the ground, with 43.6% of IFAD staff positions now placed in country offices. In addition, IFAD introduced comprehensive structured risk assessment processes and effective governance systems, facilitating the transition towards a higher level of risk maturity to support IFAD's credit rating and full implementation of IFAD's hybrid financing model. The year 2022 also saw preparations for the Thirteenth Replenishment of IFAD's resources, with a strategic focus on food systems, fragility, climate change, and private sector engagement.

In its 2022 report, IFAD's Independent Office of Evaluation (IOE) found continued strong performance in environment and natural resource management, innovation, and relevance. The IOE highlighted the need for IFAD to act at the project design and implementation stages to improve project efficiency, support government performance, and formulate strategies informed by holistic conflict and fragility analyses in order to address both the drivers and consequences of fragility.

2023 Priorities: Key U.S. priorities for IFAD in 2023 are:

- Accelerating and deepening IFAD's response to high levels of food insecurity exacerbated by Russia's invasion of Ukraine.

- Supporting policies, projects, and programs that will advance U.S. food security priorities, such as strengthening agricultural productivity and food security, integrating climate adaptation and mitigation design elements, and strengthening food and agriculture value chains, including by mobilizing private investment and scaling up small-scale producers.

- 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 further enhancing program quality, project-level efficiency, and sustainability of impact.

- Advancing U.S. food security priorities on climate and fragility, including through the consultations on the Thirteenth Replenishment of IFAD’s Resources, which will occur throughout 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 IFIs have continued their steadfast implementation of their revised policies on debt data reporting and disclosure under their joint MPA. 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.

Member states have made significant tangible progress on debt transparency, driven by the IMF's and World Bank's stronger requirements on debt data disclosure and supported by these IFIs' increased TA on capacity building. These requirements are included in the IMF's revised Debt Limits Policy (DLP), the IMF's updated Debt Sustainability Analysis for Market-Access Countries, and the World Bank's Sustainable Development Finance Policy. In addition to encouraging the IMF and World Bank to improve their surveillance on borrower countries' debt data, Treasury has continued to press both institutions to address other key gaps in debt data reporting, including on collateralized debt where Treasury has pushed the IFIs to include a strong component on transparency in their forthcoming best practices on this type of borrowing.

Additionally, Treasury has also been pushing creditors to improve their reporting on their lending activities to both institutions, with the goal to increase the accuracy of the IFIs' debt databases through debt data reconciliation between the debtors and creditors.

Treasury continues to monitor developments on Chinese lending and to 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 MICs and larger LICs. Direct lending from Chinese policy banks (particularly China Export-Import Bank and China Development Bank) and state-owned commercial banks now make 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.

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

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 (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.]*

[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).

The provision of 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 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 continues to scale up TA and CD activities in response to increased demand from LICs for help in addressing growing debt vulnerabilities. The IMF dedicates a substantial amount of its total TA 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 TA 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. IMF Exceptional Access Programs in 2022

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. Access limits for financing through the General Resources Account were temporarily (one-year) raised to 200 and 600% of quota, respectively, for programs approved after March 6, 2023.

Argentina, Chad, Egypt, and Panama had exceptional access programs as of end-2022, of which Argentina and Egypt were approved in 2022. 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 March 25, 2022, the IMF Executive Board approved Argentina's request for a 30-month EFF. Argentina requested the EFF to address Argentina's economic crisis and immediate financing needs as the country recovered from the COVID-19 shock, while implementing measures designed to begin a gradual process of addressing structural imbalances over an extended period. The EFF was approved for 1001% of quota ($45 billion). At the time of the EFF, Argentina had outstanding credit of 902% of quota (roughly $40 billion) from their prior Stand-By Arrangement approved in 2018. Since the EFF's approval, the Executive Board has approved the first four reviews of Argentina's program, with the most recent review approved in March 2023. Argentina's credit outstanding to the IMF is currently $43 billion.

On December 16, 2022, the IMF Executive Board approved Egypt's request for a 46-month EFF. Egypt requested the EFF to catalyze additional financing from regional partners, address macroeconomic imbalances and spillovers from Russia's war against Ukraine, and support deep structural and governance reforms to promote private sector-led growth and job creation. The EFF was approved for 115% of quota ($3.1 billion). At the time of the EFF, Egypt had outstanding credit of 661% of quota (roughly $19 billion) from their prior Stand-By Arrangement approved in 2020. At the EFF's approval, Egypt received $360 million in financing. The first review, scheduled for March 2023, has been delayed.

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 ($1,205 for WB FY 2022) 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, 36 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. Further proposals for IDA graduation could be made as part of the IDA-21 replenishment.

In 2022, IDA donors and the Board supported Sri Lanka's reverse graduation to IDA-only status, reflecting the sharp shocks to per capita income, lack of creditworthiness for IBRD borrowing, and the authorities' commitment to economic reforms and pursuing debt restructuring to restore macroeconomic sustainability.

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

III. Report on the Performance Measures of the North American Development Bank (NADB) under the United States-Mexico-Canada Agreement Act

REPORTING LANGUAGE

Pursuant to the United States-Mexico-Canada Agreement (USMCA), Title VIII, Subtitle C—North American Development Bank, Section 834 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 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.

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.

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.

Since 2021, the Bank has received $3.8 million in congressionally appropriated grants from the U.S. Department of State for the CAP program and technical assistance activities.

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 was 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. The two-year program expired on December 31, 2022. The final results of the program are summarized at the end of this report.

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 that 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.

In June 2022, building on the success of the ProRec program, the Board of Directors approved the NADB Green Loan Program with a financing commitment of up to $300 million to help increase long-term financing options for small businesses and farmers looking to implement green technologies to improve their operating efficiencies and reduce their environmental impact. Through this program, NADB will provide green loans to small- and medium-sized financial intermediaries (SMFIs), for subsequent lending to eligible green projects that comply with the program's Green Loan Framework. Local and regional SMFIs are in a better position and can more efficiently lend to small businesses and projects, enabling NADB to extend its reach and environmental benefits to underserved areas. The program will also support environmental, social and governance (ESG) capacity-building for smaller financial institutions.

In December 2022, the Board approved the establishment of the Environment Investment and Capacity Facility (EICF) to hold and account for the Bank's grant funds available for construction and technical assistance purposes, including funds provided by third-party donors.

Through this facility, available grant funds will grow more rapidly, and NADB will be able to fund more projects expeditiously.

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

2022 Project Approvals and Construction Completed

Projects Approved

During 2022, ten new projects were approved to receive up to $371.4 million in financing in the areas of water and wastewater system improvements, solid waste management, sustainable energy and food value chains, efficient border crossing facilities and support for recovery from the COVID-19 pandemic. Two loans totaling $28.7 million were subsequently cancelled prior to year-end, reducing the total financing approved to $342.7 million. The eight remaining projects represent a total investment of $562.0 million and will benefit an estimated 5.5 million border residents.

Three of the projects were in the priority sector of water, including a state-wide program to finance water and wastewater projects that comply with a pre-established sustainability framework. This approach allows NADB to finance a larger number of projects in a more efficient manner. In addition, the rehabilitation of the wastewater collection systems in Ciudad Juarez, Chihuahua, and Mexicali, Baja California, will ensure adequate wastewater infrastructure serving 283,860 residents, as well as help prevent up to 25 million gallons a day of untreated sewage discharges from spills and leaks that could affect shared aquifers and rivers, including the Rio Grande and New River.

A project for the purchase of landfill equipment will benefit more than 14,000 residents in the communities of Roma and Escobares, Texas. The new compactor will ensure the proper disposal of approximately 40 metric tons/day of municipal solid waste and special waste in compliance with applicable regulations, which will help maintain the optimum life of the new landfill.

In the area of air quality, the construction of inspection facilities to support the processing of commercial vehicles on the U.S. side of the Anzalduas Land Port of Entry that connects Mission, Texas and Reynosa, Tamaulipas, will benefit close to a million residents in three U.S. communities and one Mexican community. Opening additional capacity at an existing port of entry in the region will help relieve congestion at other area ports of entry that are currently experiencing crossing delays, resulting in a net reduction in greenhouse gas emissions and criteria pollutants caused by commercial traffic.

NADB also approved its first project combining solar energy generation with battery storage, to be built in Kinney County, Texas. Pairing energy storage systems with solar parks increases efficiency and reliability by storing the electricity produced during periods of high solar output and delivering it to the grid during periods of peak demand. During its first year of operation, the project is expected to produce electricity equivalent to the annual consumption of 30,286 households and prevent the emission of 186,398 metric tons/year of carbon dioxide (CO_2).

Through ProRec, a project to refinance up to $14.2 million in existing debt for the water utility in Hermosillo, Sonora, was approved, and the loan was executed prior to year-end for $13.9 million. This transaction is expected to reduce the water utility's debt service obligations by approximately $928,000 during the first year of the loan. The annual savings can be redirected to support the maintenance and ongoing operation of existing water services for 924,700 residents of Hermosillo, Sonora, while lessening the need to raise rates.

Through the new Green Loan Program, a $20 million credit line was approved and partially executed with a Mexican SMFI to fund its lending operations to micro-, small- and medium-size enterprises for eligible green projects located within the 300 kilometer border region in Mexico. At least 50% of the loan proceeds are expected to be used to support water conservation and energy efficiency improvements for agribusinesses, making it the first project financed by the Bank in the sector of sustainable food value chains.

Completion of Construction

During 2022, five projects were fully implemented and began operations. These projects represent a total investment of $33.7 million and are benefitting more than 1.85 million border residents.

In addition to the ProRec refinancing project detailed above, four water-related projects were completed in communities in Mexico, including upgrades to two wastewater treatment plants with a combined capacity of 54.2 million gallons a day (mgd) in Chihuahua, Chihuahua. The rehabilitated plants are producing better quality effluent and 33% less sludge, while the installation of a 1.25-megawatt cogeneration facility has the capacity to supply nearly 71% of the electricity required to operate one of the plants, while also preventing the emission of approximately 9,583 metric tons/year of carbon dioxide (CO_2).

Water services were also improved for residents in two communities in Sonora. A project to replace part of the sewer main that connects the wastewater collection system to the treatment plant was completed in Agua Prieta, Sonora, benefitting 96,000 residents by reducing the risk of line breaks and the possible discharge of up to 5.7 mgd of untreated wastewater that could impact the local river. In the case of Magdalena, Sonora, improvements to the water supply and distribution system are ensuring safe and reliable service for approximately 12,200 residents and preventing an estimated 264 million gallons per year in water losses.

Finally, in the area of stormwater management, improvements to two major stormwater channels in Ciudad Acuña, Coahuila, have not only reduced the risk of flooding for an estimated 8,210 residents in the surrounding neighborhoods, but are also protecting a major sewer main, which due to erosion in both channels, was vulnerable to collapse. Consequently, the project has prevented the potential discharge of up to 11.4 mgd of raw sewage from flowing into the Rio Grande, thereby indirectly benefitting the entire local population, as well as communities downstream on both sides of the border who depend on the river for their water supply.

Aggregate Project Results

Since its inception in 1994, NADB has financed 295 environmental infrastructure projects, of which 267 are already in operation and serving more than 19 million people in the border region. A summary of the cumulative impact of NADB-funded projects per environmental sector as of December 2022 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:

- 175 projects in operation
  - 147 water and/or wastewater
  - 24 water conservation
  - 4 stormwater
- $1.1 billion in NADB financing
- $2.6 billion in total investments
- 13.5 million people benefitting

Reliable Water Supply

26	treatment plants built, expanded or rehabilitated with a combined capacity of 157 mgd, sufficient to supply 2.4 million people
350	miles of waterlines installed

17,328	new connections for first-time service
44	communities benefitted

Adequate Wastewater Treatment	
66	treatment plants built, expanded, or rehabilitated with a combined capacity of 479 mgd, sufficient to serve 9.3 million people
1,638	miles of sewer lines installed
437,845	new connections for first-time service
92	communities benefitted

Water Savings	
1,033	miles of improved canals and water conveyance systems in irrigation districts
524	cubic feet per second of water being saved for farmers and municipal water systems, sufficient to supply 4.5 million people
20	irrigation districts benefitted

Improved Flood Controls	
22	miles of stormwater collectors
386	acre-feet of reservoir capacity
175	cubic feet per second of pumping capacity
122,493	households benefitted in 4 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
3,386	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
  - 38 sustainable energy
  - 19 roadway improvements
  - 3 mobility
- $2.1 billion in NADB financing
- $7.2 billion in total investments
- 10.3 million people benefitting

Sustainable Energy	
3.2	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 Roadways	
12.7	million square meters of street paved or rehabilitated
13,493	metric tons/day of suspended particulate matter (PM_{10}) avoided
14	communities benefitted
Cleaner 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:

- 6 projects in operation
- 1.02 million people benefitting
- $49.2 million in NADB financing
- $49.6 million in total investments

Refinancing Existing Debt	
$1,749,727	dollars in annual debt service obligation savings

5	communities benefitted

Results of ProRec Program 2020-2022

The two-year program created to support recovery from the economic crisis caused by the pandemic expired at the end of 2022, with seven projects approved to receive up to $63.7 million in loan financing. Six refinancing projects totaling $49.2 million were fully executed for three U.S. communities and two water utilities, one in each country. These six projects are expected to save a combined $1.7 million in debt service obligations in the first year of the loans, easing liquidity constraints caused by the pandemic and lessening the need to raise rates or taxes to continue providing crucial public services.

The last project consists of building a hospital and a medical specialties center in Sonora focused on serving seasonal agricultural workers. The project 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 financing agreement for the $14.2 million loan is expected to be executed in early 2023.

A portion of ProRec funding was also set aside for technical assistance initiatives. NADB approved a total of $580,000 to support two communities in the United States and one community in Mexico. Of that amount, $80,000 in grant funding was used to help cover the financial costs associated with the debt refinancing of two communities in Texas. In addition, a $500,000, credit line was contracted with a microbank in Baja California to facilitate access to affordable financing for vulnerable populations. With this credit line, the microbank expects to fund approximately 250 home improvement and small business loans to help address the lack of adequate housing and develop more employment opportunities, especially for rural and indigenous communities.