

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



A Report to Congress

consistent with

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

United States Department of the Treasury
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INTRODUCTION¹

The international financial institutions (IFIs) play an essential role in the international financial system, helping maintain open markets and financial stability, enhancing global security, supporting U.S. and global economic growth and our national security interests. The IFIs fight poverty, address environmental challenges, help enhance food security, and respond to emerging crises and emergency situations. U.S. leadership was instrumental in founding and designing many of these institutions, and the United States continues to use its influence to shape IFI policies and activities today. It is critical to retain America's strong leadership position in these vital institutions, which advance our national security, our economic interests, and our values.

For nearly 70 years, the International Monetary Fund (IMF) has served the global community and promoted U.S. national security and economic interests with strong bipartisan support in the United States. The IMF helped Europe and Japan achieve sustained growth in the post-war period. After the demise of the Bretton Woods System, the IMF helped the United Kingdom and Italy overcome their crises in the 1970s, resolve the Latin American debt crisis of the 1980s, support economic transition in Eastern Europe and the former Soviet Union in the 1990s, and was central to the response to the Asian and emerging market financial crisis late in the 1990s and earlier this decade.

The IMF remains the foremost international institution for promoting global financial stability. Since 2008, the IMF has been at the center of the global crisis response efforts, helping mitigate the impact of the crisis in its member countries and prevent contagion. Through its three main activities—surveillance, technical assistance, and lending—the IMF promotes economic stability and helps prevent and resolve financial crises when they occur, thereby promoting growth and alleviating poverty in its member countries. The IMF is providing critical support to U.S. allies and governments whose failure would jeopardize U.S. national security interests, including Jordan, Morocco, Tunisia, and Yemen in recent years. The IMF is assisting low-income countries with needed policy advice and financing, actively encouraging transparency and accountability in all of its member countries, and working with the G-20 on policies to foster strong, sustainable, and balanced global growth. As the world's first responder to financial crises, the IMF continues to play an indispensable role in protecting the U.S. economy – and the prosperity of American businesses, workers, and households – from the destabilizing effects of crises abroad.

In 2010, G-20 Leaders and the IMF membership decided on a set of quota and governance reforms designed to strengthen the IMF's critical role and effectiveness. The 2010 quota reforms modernize IMF governance to better reflect countries' economic weights in the global economy and keep emerging economies anchored in the multilateral system that the United States helped design and continues to lead. The reforms preserve U.S. veto power and influence in the IMF, without increasing the current U.S. financial commitment to the IMF. The rest of the world has

¹ Section 1701 of the International Financial Institutions Act, as amended by the Omnibus Appropriations Act, 1999 (P.L. 105-277, Div. A §101(d) [Title V, §583]), requires the Chairman of the National Advisory Council on International Monetary and Financial Policies (the Secretary of the Treasury, as designated pursuant to Executive Order 11269 of February 14, 1966, as amended) to report annually to Congress on the participation of the United States in the international financial institutions (IFIs).

acted to ratify the 2010 IMF reforms, and only U.S. acceptance is necessary for these important reforms to enter into effect.

As the United States has delayed approving the 2010 reforms, other countries have sought to increase their influence in the institution bilaterally, outside of the IMF's quota-based financial and governance structures in which the United States exercises its leadership role. In 2012, due to the U.S. delay, the IMF secured bilateral borrowing agreements with countries such as China (\$43 billion), Korea (\$15 billion), Brazil (\$10 billion), India (\$10 billion), Mexico (\$10 billion), and Russia (\$10 billion), enhancing these countries' standing and eroding U.S. influence. Congressional approval of the 2010 reforms is necessary to reaffirm the U.S. leadership position and reinforce the IMF's central position in the global financial system, at a time when emerging economies explore establishing new and parallel financial institutions.

Alongside the IMF, the multilateral development banks (MDBs) are essential instruments to promote U.S. national security, support broad-based and sustainable economic growth, and address key global challenges like environmental degradation, while fostering private sector development and entrepreneurship. MDB concessional facilities are an important source of financing for the development needs of fragile and post-conflict states. The projects they support combat extreme hunger and poverty while promoting global stability, prosperity, and private sector growth.

This report covers the period from August 2013 to April 2014 and looks at prospects for the remainder of 2014. It also includes the Report to Congress on the International Development Association's Contributions to Graduation, consistent with 22 U.S.C. § 262r-6(b)(2).

INTERNATIONAL MONETARY FUND (IMF)

Major Issues Affecting U.S. Participation in the IMF

Background: The United States participates in the IMF through a quota subscription. Quotas are the metric used by the IMF to assign voting rights, to determine contributions to the IMF's general resources, and to determine access to IMF financing. The IMF's 21st century efforts to modernize its governance started during the Bush Administration. In 2006, the IMF decided on an ad hoc quota increase for the most underrepresented emerging market countries (China, Korea, Mexico, and Turkey). In April 2008, IMF members reached agreement on a broader quota reform package as a further step to modernize the IMF's governance structure to keep pace with the rapid growth and greater economic weight of dynamic emerging market countries in the global economy. This agreement included a small increase in the U.S. quota to maintain our share and veto power as other members' quotas were increased. On June 24, 2009, the Supplemental Appropriations Act, 2009 (Public Law 111-32), was enacted, providing authorization and appropriations for an increase in the U.S. quota share in the IMF by the dollar equivalent of 4.97 billion Special Drawing Rights (SDRs) (about \$7.71 billion as of June 24, 2009) as well as an increase in the U.S. participation in the New Arrangements to Borrow (NAB; discussed below).

At the Pittsburgh Summit in September 2009, G-20 Leaders agreed to further reform in IMF quotas. Agreement was reached on a reform package in the fall of 2010 at the G-20 Summit in Seoul that secured significant reform of the IMF's governance structure and voting rights in order to better reflect today's global economy thereby enhancing the IMF's legitimacy and effectiveness going forward. In particular, the reform will double total IMF quotas, with a corresponding rollback of the NAB; amend the IMF's Articles of Agreement to move to an all elected Executive Board;² shift more than 6 percent of quota shares to dynamic and underrepresented emerging market and developing countries; and preserve the quota and voting shares of the poorest member countries.

2010 Quota and Governance Reforms:

In the 2010 IMF reform agreement, the United States successfully achieved its negotiating priorities: (1) an increase in the U.S. quota alongside an equivalent reduction in U.S. financial participation in the NAB, for no change in the overall U.S. financial commitment to the IMF; and (2) the preservation of the U.S. leadership position and veto power over major institutional and financial decisions.

U.S. leadership in the IMF promotes American core interests in three ways; first, the IMF protects the U.S. economy as the Fund serves as a first responder when financial crises abroad threaten jobs and growth at home; second, the IMF strengthens our national security; and third, the Fund helps design and promote rules for an open global trade and financial system. As the world's first responder to financial crises, the IMF helps our trading partners stabilize and heal their economies, such as during the 1997-98 Asian financial crisis. By preventing crises in other countries from spreading to the United States, the IMF protects U.S. jobs, exports, and household savings. The IMF is an important partner in strengthening our national security; for example, by helping to anchor economic stability in the Middle East—in Jordan, Morocco, Tunisia, and Yemen. The approval this week by the IMF's Executive Board of a \$17.1 billion two-year financial support program for Ukraine illustrates the importance of the IMF in promoting American core interests. No other entity could provide this level of financing along with essential policy advice. The IMF program is also a catalyst for unlocking over \$15 billion in bilateral and other multilateral support for Ukraine as it undertakes important reforms.

Currently, the United States is the largest shareholder in the IMF and the only country that has the ability to veto major institutional decisions. Maintaining the unique U.S. leadership position is now more important than ever as new economic powers seek to exert their influence over the international financial system. The reforms will advance U.S. interests by strengthening the IMF's central role in the international financial system and preserving U.S. leadership in the IMF so that we can continue to shape the norms and practices that ensure an open, resilient global economy. The vast majority of the IMF membership has now acted, and U.S. approval is the only remaining step for these important reforms to go into effect.³ Congressional inaction on

² Under an all-elected Board, the U.S. would retain its current seat.

³ Before the quota increase can take effect, the amendments on reform of the Executive Board must be approved by three-fifths of the IMF's 188 members (or 113 members) having 85 percent of the IMF's total voting power. As of June 4, 2013, 139 members having 75.4 percent of total voting power had accepted the amendment. One hundred fifty one members representing 78.4 percent of total voting power have agreed to the quota increase.

quota reform has caused other IMF members to question our commitment to the institution and to the multilateral system that we helped create. At the IMF spring meetings this month, an increasing number of countries pushed for considering ways to move forward on IMF quota and governance reforms without the United States. That is why we have asked Congress, in the President's Budget, to safeguard U.S. leadership in the IMF by approving the 2010 quota and governance reforms. **The President's Budget proposal does not increase the current overall level of U.S. financial participation in the IMF.**

New Arrangements to Borrow (NAB): In addition to quota subscriptions, the IMF maintains standing borrowing arrangements with 38 financially strong members, including the United States. The NAB was designed as a pool of emergency resources for use when the IMF's ordinary quota resources are substantially drawn down in the rare circumstances that threaten the stability of the international monetary system such as those seen during the 2009 global financial crisis. As a result of the failure of Congress to approve the 2010 quota and governance reforms, the IMF has become reliant on the NAB for its lending programs. Currently, for every \$4 in IMF loans, \$3 comes from the NAB and only \$1 from quota resources. Moreover, unlike quota resources the IMF does not have automatic access to NAB resources. The availability of NAB resources requires "activation" by an 85 percent vote of the shares of NAB participants every six months. This requirement gives the BRICs (Brazil, Russia, India, and China) control over the NAB's resources as the BRIC countries hold more than 15 percent of the NAB's voting power, which is enough to block NAB activation.

The U.S. commitment under the NAB is currently for SDR 69 billion (about \$106 billion), which includes U.S. participation in the General Arrangements to Borrow.⁴ When the 2010 quota reform enters into effect, U.S. participation in the NAB will be reduced by SDR 40.8 billion (about \$63 billion), the same amount as the U.S. quota increase.

Promoting International Financial Stability

The IMF plays a vital role in safeguarding the international financial system and promoting financial stability. It also promotes the key U.S. goal of strong, stable global growth through effective surveillance of the international monetary and financial system as well as individual country economies. As the world's first responder to financial crises, the IMF works to help protect the U.S. recovery and promote increased global growth and stability, which supports U.S. jobs and exports, foreign investment in the United States, our financial markets and our economic health.

Effective Crisis Response: The IMF plays a central role in international efforts to resolve and prevent the spread of global economic and financial crises by providing its members with timely policy advice and financing if needed to address balance of payments problems. New IMF lending commitments totaled approximately \$126 billion in FY 2013 (ending September 30, 2013), of which \$112 billion was for a renewal of multi-year precautionary Flexible Credit Lines (FCL) to provide a buffer against external risks for Mexico, Poland, and Colombia.

⁴ The General Arrangements to Borrow is a standing borrowing arrangement that preceded the NAB and totals about \$26 billion, of which the U.S. share is about 25 percent.

Since August 2013, new IMF commitments have totaled \$10.3 billion for lending arrangements in seven countries: Albania, Armenia, Burkina Faso, Mali, Pakistan, Romania, and Sierra Leone.

The IMF's crisis-response in the Middle East and North Africa (MENA) region has been crucial to encouraging macroeconomic stability in a number of countries that are significant to our national security. A stable and more prosperous MENA region helps promote peace and facilitates more orderly democratic transitions, and thereby opens up opportunities for American businesses in regional emerging economies. The IMF is closely engaged in the region through analytical and technical advice, as well as through substantial financial support. It has committed about \$10 billion in financing arrangements with Jordan, Morocco, Tunisia, and Yemen; and is in discussions on a possible medium-term arrangement with Yemen.

U.S. Policy Goals and the IMF

The IMF serves as a critical forum for multilateral consultation and cooperation on international monetary and financial policy issues, as well as for promoting global economic and financial stability. The sections below discuss the IMF's critical functions in supporting low-income countries; working with the G-20 to promote strong, sustainable, and balanced growth; enhancing transparency and accountability in economic data; maintaining budget discipline; and, improving foreign exchange and financial sector surveillance.

Support for Low-Income Countries: The IMF plays a key role in assisting low-income countries (LICs) to achieve macroeconomic stability, a necessary condition for poverty reduction and higher long-term growth. In calendar year 2013, the IMF Board approved three lending arrangements for low-income country members under the Poverty Reduction and Growth Trust (PRGT) facilities (Burkina Faso, Mali, and Sierra Leone).

The United States has been a strong advocate for enhancing the IMF's support for LICs. Since 2009, the IMF Board has taken steps to boost the PRGT's concessional subsidy resources for lending to LICs. With strong U.S. leadership, in 2009 the IMF Board agreed to extend interest rate relief (zero interest) on all PRGT loans through the end of 2012. In 2012, led by the United States, the IMF Board decided to extend the zero percent interest rate on PRGT loans for an additional two years through the end of 2014. These initiatives have helped put the PRGT on a more sustainable footing and safeguard the IMF's role in promoting macroeconomic stability, higher long-term growth, and poverty reduction in LICs.

Strong, Sustainable, and Balanced Growth: The IMF provides critical analytical support to the G-20 Framework for Strong, Sustainable, and Balanced Growth, where the overarching goal is to put the global economy on a robust growth path. In addition to providing regular surveillance reports on current and future economic prospects, the IMF also provides assessments of individual members' progress in implementing past policy commitments, with special focus on exchange rate, fiscal, and structural reform commitments. A key contribution of the IMF to the G-20 cooperative policy process is its annual assessment of the collective consistency of G-20 members' policies and the ability of those policies to achieve the goals of strong, sustainable, and balanced global growth.

Transparency/Accountability: The IMF promotes transparency through its strong data standards. Effective bilateral and multilateral IMF surveillance requires provision of timely, full, and accurate data. Transparency is necessary to assess the IMF's effectiveness in contributing to global monetary and financial stability and in building broader economic knowledge. The IMF's collection and publication of comparable data – including on exchange rates and reserves – remains a top U.S. priority. The IMF has begun collecting and disseminating comparable cross-country data in new areas, such as the Financial Soundness Indicators, but more progress is needed.⁵ The IMF is conducting a review of the IMF's Data Standards Initiatives that will focus on increasing the number of member countries participating.

Budget Discipline: The IMF has maintained a relatively tight budgetary framework, and is working toward making more efficient use of existing resources. The IMF's medium-term budget framework includes a nominal 1.9 percent increase in FY 2015⁶, with no increase in the annual budget in real terms in each of the next three years. The United States continues to be a strong advocate of IMF budgetary stringency, and supports the IMF's strategy of offsetting expenditures for new activities with a reduction in spending in other areas.

Effective Surveillance: Surveillance of members' exchange rates is at the core of the IMF's mandate. For the IMF to fulfill its central role in the international monetary system, it must continue to strengthen its efforts to exercise firm surveillance over IMF members' exchange rate policies, and it must be prepared to make tough judgments, especially when evaluating large countries that have systemic implications. Without firm surveillance, the global imbalances that contributed to the recent crisis could go unaddressed and pose a threat to future global economic stability. Going forward, the United States will continue to press for increased candor, transparency, and evenhandedness in IMF exchange rate surveillance. In the IMF Executive Board, the U.S. Executive Director will also continue to urge the IMF to address instances of excessively delayed Article IV reviews (which are the primary vehicle for bilateral surveillance).

The IMF continues to refine and expand its guidance on international reserves issues. In December 2013, the IMF published further guidance on its new reserves adequacy metric, which measures the level of foreign exchange reserves needed for precautionary purposes.

In October 2013, the IMF published a concept note on the 2014 Triennial Surveillance Review (TSR), which aims to strengthen the effectiveness and traction of IMF surveillance. The 2014 TSR will assess the IMF's implementation of the 2011 TSR recommendations, which included regularly analyzing spillovers and cross-country issues, conducting in-depth risk assessments in bilateral and multilateral surveillance products, improving financial sector surveillance, and publishing assessments of external balances. It will also examine evenhandedness and consistency in IMF policy advice.

The IMF works with other international organizations to promote stronger financial systems around the world. The joint IMF-World Bank Financial Sector Assessment Program (FSAP) has emerged as a critical instrument for financial sector surveillance and advice. The FSAP assessments are designed to gauge the stability of the financial sector and to assess its potential

⁵ See <http://fsi.imf.org>.

⁶ The IMF's fiscal year runs from May 1 through April 30. FY 2015 is from May 1, 2014 to April 30, 2015.

contribution to growth and development. Since the FSAP was launched in 1999, around 140 countries have completed the program (many more than once), and more than 25 assessments are currently under way or in the pipeline. In September 2010, it was agreed that financial stability assessments for jurisdictions with systemically important financial sectors, which include the United States, should take place at least once every five years as a mandatory part of IMF surveillance.

MULTILATERAL DEVELOPMENT BANKS (MDBs)

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

Within the MDBs, the United States acts to: (i) foster U.S. national security by supporting engagement by the MDBs with fragile and conflict-affected states (e.g., Afghanistan and Liberia), (ii) promote U.S. economic growth through exports by helping the MDBs cultivate the new emerging economies of the world, and (iii) address critical global priorities, such as energy security, renewable energy, environmental degradation, and food security.

Below we summarize the major developments and coming prospects for each institution, with a description of progress made and steps taken to achieve U.S. policy goals.

World Bank

2014 Priorities: The key U.S. priorities for 2014 are: (i) helping to ensure that the new World Bank strategy, introduced in late 2013, is implemented effectively and leads to a more efficient institution, (ii) laying the foundation for a more effective and up-to-date safeguards framework, (iii) pushing for a comprehensive and satisfactory update of the Bank's procurement policy that maintains a level playing field for U.S. firms, and (iv) upholding the revised Coal Guidance developed under the President's Climate Action Plan.

Bank Performance in 2013: During Bank Fiscal Year 2013 (FY 2013, covering July 2012 – June 2013), the World Bank committed \$52.6 billion in loans, grants, equity investments, and guarantees. This assistance included the following:

- *\$15.2 billion by the International Bank for Reconstruction and Development (IBRD) in loans and technical assistance to middle-income countries.* Latin America and the Caribbean (32 percent) and Europe and Central Asia (30 percent) received the largest shares of the IBRD's new lending, followed by East Asia and Pacific (24 percent). Among sectors, Public Administration, Law, and Justice received the largest commitment (29 percent), followed by Transportation (11 percent), and Health and Social Services (12 percent). The themes receiving the highest share of commitments were Financial and Private Sector Development (18 percent), followed by Public Sector Governance (14 percent), and Human Development (13 percent).

- *\$16.3 billion by the International Development Association (IDA) in highly concessional credits and grants to the 81 poorest countries.* Nearly half of IDA’s annual commitments (\$8.2 billion) went to countries in Sub-Saharan Africa, followed by South Asia (25 percent), and East Asia and Pacific (16 percent). Commitments for infrastructure reached over \$6 billion. Significant support was also committed to Education, Health, and other Social Services (26 percent); Public Administration, Law, and Justice (22 percent); and Agriculture (18 percent). The themes receiving the highest share of commitments were Rural Development (18 percent), Human Development (17 percent), and Social Protection (12 percent). Almost 15 percent of IDA’s resources are provided as grants to fragile states and other countries at risk of debt distress.
- *\$18.3 billion in investments by the International Finance Corporation (IFC), the private sector arm of the World Bank, to support the private sector in developing countries.* In FY 2013, IFC mobilized an additional \$6.5 billion from other investors for development projects. Nearly half of IFC projects went to the world’s poorest countries.
- *\$2.8 billion in guarantees by the Multilateral Investment Guarantee Agency (MIGA) to provide political risk insurance.* The FY 2013 level of guarantees represents a record high issuance. The majority (54 percent) of MIGA’s new business volume in FY 2013 was in the Sub-Saharan Africa region, with 41 percent of total new guarantee issuance for conflict-affected countries.

IDA Replenishment: The most recent replenishment of IDA’s resources (IDA-17) was finalized in December 2013, allowing IDA to commit up to \$17 billion per year over the next three years. As part of the IDA-17 negotiations, the United States successfully pressed IDA management to (i) “raise the bar” on gender equality, (ii) increase private sector development in IDA’s poorest countries, (iii) enhance IDA’s focus on climate change, and (iv) target additional resources for fragile states that are on a path towards stability. On gender equality, the United States pushed for a focus on eliminating gender-based violence, especially in fragile states, where such egregious violence is an obstacle to security, stability, and prosperity. In response, IDA management committed to integrate a gender perspective into IDA’s support to fragile states, and to report on progress made when donors meet to assess progress on IDA-17 in two years. In 2014, we will continue to press Bank management on the implementation of these IDA-17 policy commitments.

Key Institutional Reforms: In 2014, the World Bank will transition to a new organizational structure, review its budget and financial capacity, and advance a number of major policy reviews in addition to carrying out its regular lending operations.

- *Restructuring:* The Bank’s restructuring will include the creation of “global practices,” departments organized around technical specialties, such as education, water, or agriculture. The purpose of the new global practices is to break down silos across regional offices and share specific sector knowledge across the Bank.
- *Financial Capacity:* The Bank is taking measures to boost revenue flows, increase the leverage of the Bank’s capital base, and reduce administrative costs (by \$400 million, or

8 percent of its current administrative budget). We support these measures because they respond to many of our key financial objectives (e.g., increasing loan charges for borrowers or better leveraging of the Bank's existing capital) and will improve the Bank's long-term financial sustainability.

- *Safeguards Review*: The World Bank is undergoing a multi-year review of its environmental and social safeguards to develop a strengthened and integrated policy framework. The intent is to update the eight core environmental and social safeguards policies used for investment lending, and the policy on use of borrower safeguard systems. In doing so, the Bank will consider several emerging areas (e.g., labor) for possible inclusion in the updated safeguards regime. Treasury's objective is an up-to-date, integrated safeguards policy framework that improves the clarity, coherence, efficiency, and effectiveness of the Bank's safeguards. The review and update is scheduled to conclude in 2015.
- *Procurement Review*: The World Bank launched an extensive review of its procurement policies in 2012, which it is aiming to conclude in 2014. The procurement review is assessing how the Bank's procurement policies should be updated in light of an evolution in the Bank's lending portfolio, changes in global procurement practices, and development of country capacity to manage procurement processes. Proposed improvements include a more robust complaints mechanism for bidders, greater engagement by the Bank across the entire contract cycle, and a commitment to strengthen the capacity of both borrowing countries and Bank procurement staff. The United States will continue to monitor closely the review to help ensure that the Bank maintains high standards in order to safeguard Bank resources, hold the Bank accountable for creating a level playing field for all bidders, and support capacity building in client countries.
- *Program for Results (PforR)*: PforR is a relatively new Bank financing instrument that pays clients for the achievement of outputs, such as the number of children immunized. Bank management is conducting a preliminary review of PforR this year, to be followed by a review by the Bank's Independent Evaluation Group in 2016. While we support the PforR concept and would like to see it tested, we engaged intensively with Bank management to secure changes to address concerns by the NGO and business communities about the safeguards and procurement standards that would apply to the PforR instrument. These changes included a pledge to exclude high risk projects from eligibility, and a commitment to cap the use of the PforR instrument at 5 percent of total Bank commitments for the first two years (2012-2014), allowing us to monitor implementation carefully. Our key objective is to help ensure a credible and comprehensive evaluation of the PforR instrument, and to advocate for appropriate reforms as needed to correct any possible deficiencies.

African Development Bank

2014 Priorities: Our key priorities for the African Development Bank (AfDB) in 2014 include encouraging the AfDB to, (i) continue its strong partnership with the United States on the U.S. Power Africa Initiative, (ii) deepen its engagement in fragile states, and (iii) remain focused on

promoting private sector growth across the continent. In addition, the AfDB will return its headquarters from Tunis, Tunisia, to Abidjan, Cote d'Ivoire, from which the AfDB moved in 2003 due to civil strife.

Bank Performance in 2013: During 2013, AfDB assistance included the following:

- *Total AfDB approvals were \$6.6 billion, an increase of 2.7 percent over 2012. This growth was driven by a 20 percent increase in AfDF approvals in 2013, which countered a fall in AfDB approvals of 12 percent. The decline in AfDB approvals resulted from economic and political disruptions among key borrowers (notably Egypt and Tunisia, which both faced ratings downgrades) that curbed operations as concerns over prudential limits and risk exposure started to bind.*
- *Of the total AfDB approvals, loans and grants accounted for \$5.3 billion (82 percent), with the remaining \$1.2 billion (19 percent) going towards debt relief, private sector equity participation, guarantees, and allocations to special funds. Loan and grant approvals continue to reflect selectivity in AfDB operations, with 58 percent of the lending going to infrastructure (of which transportation was the dominant subsector, followed by energy, water supply and sanitation, and communication).*
- *The distribution of AfDB loan and grant approvals by sub-region was as follows: North Africa (6.4 percent); Southern Africa (17.3 percent); East Africa (16.8 percent); West Africa (27.8 percent); and Central Africa (6.9 percent). Loan and grant approvals for multinational projects and programs amounted to 24.9 percent.*

AfDF Replenishment: Negotiations for the thirteenth replenishment (ADF-13) of the AfDF concluded in September 2013. As part of the AfDF replenishment, Treasury encouraged the AfDF to build on its strong track record in infrastructure by increasing its focus on mobilizing private sector funds for viable infrastructure projects. Key reforms secured by the United States include commitments by the AfDF to, (i) develop new concessional risk mitigation and credit enhancement instruments to catalyze private finance for infrastructure projects, (ii) strengthen support for gender objectives through better use of gender-disaggregated data and indicators and a revised gender framework that tracks gender outcomes, (iii) strengthen the effectiveness of assistance to fragile states that demonstrate the political will to take on key reforms, and (iv) strengthen the financial sustainability of the AfDF by changing loan terms.

Key Institutional Reforms: In 2013, the AfDB adopted a new private sector development strategy to improve Africa's investment and business climate. The strategy focuses on expansion of private sector financing to social and economic infrastructure, including hard assets (such as transport, telecommunications, and water and power systems) as well as soft infrastructure (such as legal frameworks, payment systems, capital markets, and credit rating agencies). In December 2013, the AfDB board approved a new Integrated Safeguards System (ISS) to strengthen the AfDB's ability to support inclusive economic growth and environmental sustainability in Africa. The ISS represents a significant improvement over the current safeguards, and will include five operational safeguards covering, (i) environmental and social impact assessment, (ii) involuntary resettlement, (iii) biodiversity and ecosystems, (iv) pollution

prevention, and (v) labor. The ISS incorporates protections for vulnerable groups, including women, people with disabilities, and indigenous peoples, and represents the culmination of a four-year process that included active U.S. engagement led by the Treasury Department.

Asian Development Bank

2014 Priorities: Key U.S. priorities for the Asian Development Bank (AsDB) in 2014 include, (i) encouraging the AsDB to continue its strong engagement on our national security priorities, including operations in Afghanistan and Burma, (ii) encouraging the AsDB to begin graduation discussions with several upper-middle-income countries, (iii) maximize support for the AsDB's poorest borrowers in an increasingly resource-constrained environment, and (iv) continue to encourage a renewed focus on private sector development.

Bank Performance in 2013: In 2013, the AsDB committed \$10.4 billion in non-concessional resources, and the Asian Development Fund (AsDF) committed \$3.9 billion in concessional resources.

- *Top recipients of funds were India (17 percent), China (14 percent), Pakistan (11 percent), Indonesia (7 percent), and the Philippines (6 percent).*
- *AsDB operations for lending focused primarily on infrastructure projects (74 percent), mainly in the Transportation (30 percent), Energy (27 percent), and Water Supply and Sanitation sectors (14 percent).*

AsDF Replenishment: In 2011, donors agreed on a replenishment level of \$12.4 billion for the tenth replenishment (AsDF-11) of the Asian Development Fund (AsDF) covering the four-year period from 2013-2016. Approximately 37 percent of the replenishment came from donors, with the remainder sourced from internal AsDF resources and transfers of net income from the AsDB. While the overall size of the replenishment at \$12.4 billion represents a 10 percent increase from AsDF-10, the U.S. pledge declined by 22 percent, substantially larger than AsDF-10. The reduced U.S. pledge is part of a multi-year plan to clear U.S. unfulfilled pledges to the AsDF.

Key Institutional Reforms: The AsDB continued to implement reforms negotiated in 2009 as part of its general capital increase. In particular, in 2013, the AsDB raised its loan charges by 10 basis points, an important step in maintaining its sustainable lending practices. In addition, the AsDB will consolidate decisions on loan charges, administrative expenses, transfers from net income, and annual lending in order to make tradeoffs more apparent and financial decision-making more strategic. The AsDB has also made significant progress in preparing a midterm review of its overall institutional strategy, "Strategy 2020," that covers the years 2010 through 2020. The purpose of the review is to improve AsDB's development effectiveness by analyzing lessons learned.

European Bank for Reconstruction and Development

2014 Priorities: Key priorities for the European Bank for Reconstruction and Development (EBRD) for 2014 are, (i) pressing for an effective Fifth Capital Resources Review to establish

clear markers for the graduation of wealthier borrowers (this comprehensive review of EBRD capital resources that takes place every five years and sets medium-term strategic directions for the EBRD), and (ii) encouraging the EBRD to clarify planned assistance to support transition in the MENA region. Other priorities include completion of the review of the EBRD's Environmental and Social Policy, Public Information Policy, and Project Complaint Mechanism.

Bank Performance in 2013: The EBRD continued to provide financing in support of transition to market economies in Europe and MENA. EBRD investments in 2013 reached \$11.7 billion, with 323 projects. Approximately 79 percent of EBRD investments were directed to the private sector.

- *Top recipients of investments were Russia (21 percent), Turkey (11 percent), Ukraine (9 percent), Poland (9 percent), and Romania (6 percent).*
- *EBRD business volume in 2013 was concentrated in the following sectors: corporate (31 percent), financial institutions (28 percent), energy (21 percent), and infrastructure (20 percent).*

The EBRD maintained a focus on its transition mandate, with 91 percent of projects signed in 2013 rated *good* or *excellent* in terms of their potential for promoting the transition to a market economy. In 2013, the EBRD broadened its successful Sustainable Energy Initiative to establish a Sustainable Resource Initiative, which adds the efficient use of water and materials to the original program's focus on energy efficiency.

Key Institutional Reforms: In line with our institutional reform objectives, the EBRD continued to increase the proportion of its investments in the early (less advanced) transition countries (ETCs), reaching a business volume of \$1.34 billion in 2013. For the fourth consecutive year, more than 30 percent of EBRD's transactions were completed in ETCs.

In late 2013, the EBRD approved enhancements to its transition impact measurement system, for both expected transition impact assessment and the tracking of actual transition results for projects under implementation. In December 2013, the EBRD approved a new energy sector strategy that focuses on renewable energy and energy efficiency, and considerably restricts financing of new coal projects. The EBRD's new strategy states that it "will not finance any greenfield coal-fired power plant except in rare circumstances, where there are no economically feasible alternative energy sources."

Inter-American Development Bank

2014 Priorities: Key U.S. priorities for the Inter-American Development Bank (IDB) include, (i) successfully enhancing the IDB's private sector development windows, (ii) strengthening the IDB's capital adequacy policy, (iii) improving the IDB's Independent Consultation and Investigation Mechanism (ICIM), and (iv) replenishing the Bank's Multilateral Investment Fund (MIF).

Bank Performance in 2013: The IDB committed \$14.0 billion in loans and grants for 168 projects in 2013.

- *Top recipients of IDB lending in 2013 were Brazil (24 percent), Mexico (15 percent), Argentina (9 percent), and Colombia (8 percent).* In addition, the IDB remains one of the most committed partners in leading reconstruction efforts in Haiti after the devastating 2010 earthquake. In 2013, the IDB approved \$192 million in new grants and disbursed \$187 million for critical projects in priority sectors in Haiti.
- *IDB lending was spread across many sectors, with the largest amounts going to transportation (20 percent), reform/modernization of the state (17 percent), financial markets (12 percent), and social investment (11 percent).* In addition, 37 percent of new loan approvals went to small and vulnerable borrowing countries.

Key Institutional Reforms: The IDB continues to make progress in implementing its GCI-9 commitments. As was detailed in the previous report, the IDB's Independent Office of Evaluation (OVE) presented a comprehensive mid-term evaluation of reform implementation at the March 2013 IDB annual meeting. Management responded constructively to OVE's findings, agreeing with most of the conclusions and recommendations. Management and the Board of Executive Directors continue to work together to strengthen implementation where it remains weak, including through a policy review of the ICIM and improvements in controls against lending into unsustainable environments.

- *Private Sector Reform:* The IDB is undertaking a review of its private sector operations to consolidate them into one entity, with a focus on increasing development impact. In these discussions the United States is pressing for efficient use of the IDB's capital, improved development effectiveness, and efficiency in operations. The private sector restructuring was one of the key issues discussed at the March 2014 IDB annual meeting.
- *Capital Adequacy:* IDB management is currently working with external advisors on updating the IDB's capital adequacy policy to take into account new ratings methodologies and address concentration risk. We expect the revised policy to be presented to the Board of Directors in the third quarter of 2014.
- *MIF Replenishment:* The current MIF agreement expires at the end of 2015, at which time MIF resources will have been depleted. As such, MIF donors are currently discussing a MIF replenishment. The United States is pressing for this replenishment to serve as a bridge to a more sustainable financing model for the MIF and increased contributions from regional borrowing members.

International Fund for Agricultural Development

2014 Priorities: A key priority for the United States in 2014 is to support the attempts of the International Fund for Agricultural Development (IFAD) to meet the goals of its Medium-Term Plan (MTP) for 2013-2015. The MTP calls for lifting 80 million rural individuals out of poverty without increasing overall IFAD spending. To realize this increased efficiency and

effectiveness, IFAD is committed to scaling up successful and innovative approaches to the development of smallholder farming. In addition, in June 2014, IFAD's 10th Replenishment consultations will launch.

Performance in 2013: IFAD committed \$888 million in loans and grants 2013.

- *Top recipients of IFAD financing in 2013 were Nigeria (10 percent), Ethiopia (10 percent), Vietnam (6 percent), Bangladesh (6 percent), and Rwanda (6 percent).*
- *Funding for agriculture production was IFAD's top priority, with over 17 percent of resources directed to that category, followed by rural markets and related infrastructure (16 percent), rural financial services (13 percent), community-driven development (12 percent), and capacity building of community/producer groups (12 percent).*

Key Institutional Reforms: In response to the commitments made in the IFAD Policy on Gender Equality and Women's Empowerment, and the requirements of the United Nations system-wide action plan on gender, IFAD has developed a methodology for providing gender-based data on IFAD's loan portfolio and has attempted to do the same on its regular budget.

North American Development Bank

2014 Priorities: A key U.S. priority is to ensure that the North American Development Bank (NADB) remains an important element in the High Level Economic Dialogue (HLED) between the United States and Mexico. In this context, NADB has agreed to, (i) conduct a study to map priority points of entry infrastructure programs and identify funding structures, and (ii) facilitate the development and financing of electricity interconnection projects.

Bank Performance in 2013: In 2013, NADB approved projects for a total of \$214 million, reflecting a growth in the number of private sector deals in the past three years, mainly in the renewable energy sector. Loans to the United States and Mexico since inception have reached parity, driven by renewable energy projects in the United States. Renewable energy accounts for 62 percent of NADB's sectoral lending, followed by air quality (12 percent), water and wastewater disposal (15 percent), and solid waste disposal and storm drainage (7 percent).

Key Institutional Reforms: NADB's growth, both in lending activities and in raising capital in recent years, has been accompanied by stronger financial policies to manage risks more effectively, and NADB plans to add staff to oversee risk management.

Report on IDA Contribution to Graduation

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

IDA provides highly concessional funds to the poorest countries, and ideally supports growth and development that ultimately enables these countries to graduate from IDA. The highest priority for scarce concessional resources is the poorest countries whose access to alternative sources of finance is highly constrained. The process of graduation from IDA is normally triggered when a country's per capita income exceeds the operational graduation threshold (currently \$1,205) for at least two consecutive years, and the country is deemed creditworthy enough to receive loans from the World Bank's International Bank for Reconstruction and Development (IBRD). The graduation process involves a phase-out of IDA funding along with a phase-in of IBRD lending. Before graduation, there is usually an intermediate stage in which countries are designated as IBRD/IDA "Blend" countries. There are currently 14 Blend countries: Bolivia, Cape Verde, Dominica, Grenada, India, Mongolia, Pakistan, Papua New Guinea, Sri Lanka, St. Lucia, St. Vincent, Uzbekistan, Vietnam, and Zimbabwe (which is not borrowing due to arrears).

IDA's goal is to help countries achieve levels of growth and institutional capacity that allows them to finance their own development needs. To date, 28 countries that are home to 2.1 billion people and were once eligible for IDA assistance no longer need support from IDA. By June 2014, five more countries are also expected to graduate: Angola, Armenia, Bosnia-Herzegovina, Georgia, and India. India, which is IDA's largest borrower, is the only current graduate that faces a hard constraint in its access to IBRD lending (due to limitations on the amount that any single country can borrow from the IBRD). As a result, India cannot replace lost IDA funding with IBRD loans. In order to smooth India's graduation to "IBRD-only" status and avoid a steep decline in combined IDA/IBRD resources, India will receive limited "transitional assistance" from IDA at interest rates closer to those charged by the IBRD.