

**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

and

Section 9006 of the
Consolidated Appropriations Act, 2016

United States Department of the Treasury
June 2018

INTRODUCTION¹

To support our national interests and promote global growth, the United States continues to play an active role in the policies and lending of the international financial institutions (IFIs). The IFIs further U.S. and global security interests and encourage open markets and financial stability. The IFIs help to fight poverty, support robust global growth, enhance food security, and respond to emerging crises and emergency situations, including natural disasters, pandemics, and the protracted displacement of refugees.

U.S. leadership was instrumental in founding and designing most of these institutions, and the United States remains the largest or joint largest shareholder in them – except in the African Development Bank, where the United States is the most significant non-African shareholder. The United States uses its shareholding, voice on the governing bodies, and convening power to proactively shape IFI policies and activities in support of U.S. national security, economic interests, and values.

The United States seeks to maintain its leadership position in the IFIs with the goal of building vehicles for supporting U.S. interests and responding to U.S. calls for reform. Throughout 2017, the United States promoted policy reforms across the IFIs to improve their governance, focus them on the core mission of higher median income, make better use of their financial resources, and improve their efficiency while maintaining high fiduciary, social, and environmental standards.

This report covers the period from January 2017 through January 2018 and looks at prospects for the remainder of 2018 for the International Monetary Fund (IMF) and the multilateral development banks (MDBs), including the World Bank, African Development Bank, Asian Development Bank, European Bank for Reconstruction and Development, Inter-American Development Bank, International Fund for Agricultural Development, and North American Development Bank. It also includes the Report to Congress on the International Development Association's Contributions to Graduation.

INTERNATIONAL MONETARY FUND (IMF)

The IMF has been operating within an improving global economic context, with more robust global growth and high availability of private capital. To this end, U.S. engagement with the IMF has emphasized the importance of delivering on its core mandate. The United States has

¹ Section 1701 of the International Financial Institutions Act, as amended by section 583 of the Omnibus Consolidated and Emergency Supplemental Appropriations Act, 1999 (P.L. 105-277), requires the Chairman of the National Advisory Council on International Monetary and Financial Policies (the Secretary of the Treasury, as designated pursuant to Executive Order 11269 of February 14, 1966, as amended) to report annually to Congress on the participation of the United States in the international financial institutions (IFIs). Section 9006 of the 2016 Consolidated Appropriations Act, 2016 (P.L. 114-113) requires the Secretary of the Treasury to report annually on changes in the IMF's lending, surveillance, and technical assistance policies. 22 USC 262r-6(b)(2) directs the Secretary of the Treasury to report to Congress on how the World Bank's International Development Association-financed projects contribute to the eventual graduation of countries from concessional financial assistance.

pressed for the IMF lending programs to focus on reforms that will boost real median incomes and promote more sustainable, private-sector led growth. The United States continues to press the IMF to more forcefully advocate policies to reduce global imbalances and enhance external stability. As with any public institution, the IMF should continue to evaluate ways to enhance the efficiency and effectiveness of its operations and maintain budget discipline.

Major Issues Affecting U.S. Participation in the IMF

The United States plays a key role in shaping IMF policy and institutional issues through its role as the IMF's largest shareholder, and has participated in the IMF financially through a quota subscription² and a contribution to the IMF's primary financial backstop, the New Arrangements to Borrow (NAB). The IMF's fifteenth general review of its overall quota resources is scheduled to conclude by the 2019 IMF-World Bank Spring Meetings in April and no later than the Annual Meetings in October 2019. As part of this review, the IMF Executive Board will examine the adequacy of the IMF's current resources and will determine whether adjustments should be made to the formula used to determine members' quota shares. Treasury will work with IMF management and other shareholders to achieve a satisfactory outcome for the U.S. in the fifteenth review.

The NAB, which entered into effect in 1998, is a set of standing borrowing arrangements with 38 financially strong members, including the United States. It provides an important supplement to the IMF's core quota resources in times of global stress. In November 2016, the IMF's Executive Board approved the renewal of the NAB for another five years starting in November 2017. Due to its voting share of 16.5 percent, the United States is the only IMF member country with the ability to veto major institutional decisions, including activation of the NAB. Congressional authorization for U.S. participation in the NAB expires in December 2022, unless renewed.

IMF Financing and Policy Developments in 2017

The IMF plays an important role in safeguarding the international financial system and promoting financial stability through its principal activities of surveillance, financing, and technical assistance. The IMF's bilateral and multilateral surveillance is aimed at encouraging policies that contribute to global growth and financial stability and discouraging policies that are not sustainable or have harmful spillover effects on other countries. As part of the global financial safety net, IMF financing plays an important role in supporting the global economy – and the prosperity of American workers, households, and businesses – during the destabilizing effects of crises abroad. The IMF complements its financing with expert analysis and technical advice, and helps governments build capacity to manage their activities more effectively.

At the end of 2017, the IMF had 18 financing arrangements in place using its general resources for a total of \$151 billion, including two precautionary arrangements totaling \$104 billion. New

² Quotas are the metric used by the IMF to assign voting rights, to determine contributions to the IMF's general resources and to determine access to IMF financing.

financing arrangements executed during 2017 include Gabon, Georgia, and Mongolia. The IMF also renewed its precautionary arrangement with the government of Mexico. As of January 2018, Ukraine was the only country with an exceptional access program.³ (In June 2018, the IMF approved an exceptional access program for Argentina.) For additional information on exceptional access programs, please see Annex on IMF Exceptional Access Programs.

With regard to the IMF's concessional resources for low-income countries, at the end of 2017 the IMF had 20 financing arrangements in place for a total of \$5.1 billion. During 2017, the IMF agreed on new concessional financing arrangements with Benin, Cameroon, Chad, Guinea, Mauritania, Niger, Sierra Leone, and Togo.

The IMF employs approximately 2,700 people and has an annual administrative budget of \$1.1 billion. With consistent pressure from the United States, the IMF has maintained a flat real administrative budget for the past 7 years. The IMF has also proposed a flat real budget for the next two years, based on continued reprioritization and increased efficiency.

The IMF reviewed and reformed a number of key policies during 2017 in the areas of lending and surveillance:

- *Review of the Adequacy of the Global Financial Safety Net.* During 2017, the IMF reviewed the adequacy of the Global Financial Safety Net, which is composed of the IMF and the multilateral development banks (at the global level), Regional Financing Arrangements (at the regional level), central bank currency swap arrangements (bilateral level), and foreign exchange reserves (individual country level). Specifically, the IMF reviewed its Flexible Credit Line and Precautionary Liquidity Line facilities and enhanced their qualification criteria and framework to ensure greater transparency. In July 2017, the IMF created a new Policy Coordination Instrument (PCI), which is a non-financing tool that enables members to signal commitment to reforms and catalyze financing from other sources. The PCI is available to all members that can satisfy the policy requirements, including the ability to meet upper credit tranche conditionality, the absence of the need for Fund financing at the time of the PCI approval, and no overdue General Resource Account or Poverty Reduction and Growth Trust obligations. Because the PCI enables a close policy dialogue between the IMF and a member country, it can help countries formulate and implement a macroeconomic policy agenda to prevent crises, enhance macroeconomic stability, and address macroeconomic imbalances, without tapping into IMF resources. Finally, the IMF strengthened the framework for its coordination with Regional Financing Arrangements (RFAs) by developing principles for coordination, agreeing to conduct additional joint test runs with RFAs, and establishing a forum for regular dialogue between the IMF and RFAs.
- *Low Income Countries Debt Sustainability Framework.* The joint IMF-World Bank Low Income Countries Debt Sustainability Framework (LIC-DSF) has played an important role in promoting sound debt management practices and avoiding unsustainable build-up

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

of debt in low income countries since 2005. The IMF Executive Board approved several technical changes to the LIC-DSF in 2017, responding to developments such as rising debt loads and debt service in LICs, increased non-concessional lending, and greater market access. For countries where debt is determined to be at “moderate” risk of debt distress, the new framework will provide a secondary assessment of their capacity to absorb shocks, to help evaluate their potential for slipping into the “high” risk category.

- *Programs in Currency Unions.* In February 2018, the IMF Executive Board formalized a set of guidelines for policy assurances the IMF will now require from currency union-level institutions when their cooperation is critical to the success of a program. These will be limited to actions affecting the specific member’s adjustment program, but may involve adjustments in union-wide policy that affect all currency union members if a union-wide policy contributed to the balance of payments problem affecting the program country, or a critical mass of the member countries are facing balance of payments problems. The assurances will be voluntary, endorsed by the Board, and published as part of the program documents. The United States had long advocated this change as monetary and financial sector policy are macro-critical and often necessary for program success, whether or not a country has outsourced those functions to a regional institution.
- *External Sector Report.* In July 2017, the IMF discussed the annual External Sector Report (ESR), which analyzes global external developments and provides IMF staff assessments of 28 of the world’s largest economies’ external positions, including current account balances, real exchange rates, external balance sheets, capital flows, and international reserves. The 2017 report included a discussion of persistent current account surpluses. The United States pushed for more symmetric policy advice between surplus and deficit countries to construct a global adjustment process that works more effectively to prevent the build-up of excessive imbalances and uneven global demand. In 2018, IMF staff plan to enhance their methodology for assessing external balances.
- *Focus on Governance and Corruption.* In April 2018, the IMF adopted a new Framework for Enhanced IMF Engagement in Addressing Governance Vulnerabilities. Staff designed the framework in response to Board pressure, in particular from the United States, for more direct and consistent engagement on governance and corruption issues, particularly in countries where these problems hamper private sector development and growth. Through the framework we expect the IMF to apply a more consistent focus on governance and corruption issues in surveillance, programs, and technical assistance.
- *Capital Flows and Macprudential Measures.* In June 2017, the IMF published a policy paper describing the benefits and risks from capital flows and the role of macroprudential measures in increasing resilience to volatile capital flows. It outlined the IMF’s approach for classifying measures as capital flow measures, macroprudential measures, or joint capital flow/macprudential measures in order to ensure consistent, well-tailored advice across jurisdictions. The IMF determines a measure’s classification based on several factors, including its intent to limit capital flows, the design of the measure, and country-

specific circumstances. Moreover, the paper stressed that neither capital flow measures nor macroprudential measures should substitute for warranted macro adjustment.

- *Technical Assistance.* At the urging of the U.S. Executive Director, the IMF began providing additional capacity development assistance for Anti-Money Laundering/Countering the Finance of Terrorism (AML/CFT). In 2018, the IMF Executive Board will formally review the IMF's capacity development programs and policies and the role of the IMF on AML/CFT issues.

IMF Priorities in 2018

The United States has engaged with the IMF on a number of key policy priorities for 2018, including:

- *Review of Facilities for Low Income Countries.* In November 2017, the IMF began a comprehensive review of the facilities available for low income countries (LICs). Staff will first conduct a stocktaking of usage patterns, demand, and policies, including a comparison of Poverty Reduction and Growth Trust policies with General Resources Account policies. That analysis will inform discussion of possible refinements to access policies and financing terms, precautionary support availability, support for non-economic shocks and fragile states, non-financial program structure, and areas for simplification of procedures. The IMF staff will recommend policy adjustments in late 2018 for consideration by the Executive Board.
- *IMF Conditionality Review.* In May 2018, the IMF began a periodic review of program conditionality. IMF staff intend to review all aspects of program design including program length, performance criteria, structural benchmarks, staff forecasts, and program outcomes – with the goal of improving design ahead of a future crisis. The United States is engaging with staff to press for reforms to enhance the effectiveness of conditionality in promoting growth, market liberalization and higher median income.
- *Debt Transparency and Sustainability.* The IMF and the World Bank are jointly developing a multi-pronged work program to tackle rising debt levels in low-income countries. This work program will highlight growing debt vulnerabilities, tackle shortcomings in debt data coverage and transparency, and address challenges from the changing creditor landscape.
- *Capacity Development Review.* In 2018, the IMF will undertake a Capacity Development Review. Capacity development, which includes technical assistance and training, is a core IMF function. Through the review, the IMF hopes to increase capacity development impact and efficiency, and improve integration of capacity development and surveillance activities.

Conclusion

The IMF has taken steps over the past year that aim to safeguard IMF resources and modernize program access. Adjustments to the qualification criteria and framework for precautionary lending help to protect the IMF from incurring losses and protect the United States' financial commitment to the IMF. Other activities, such as the External Sector Report, are aimed at promoting sound policies among member countries and thereby safeguarding IMF resources.

MULTILATERAL DEVELOPMENT BANKS (MDBs)

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

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

The MDBs seek to support broad-based and robust economic growth and job creation through investments in areas such as infrastructure, health, and education. They also encourage private sector development and entrepreneurship. MDB concessional lending and grants are an important source of financing for the development needs of fragile and post-conflict states and for combating extreme poverty and hunger. MDB projects can promote global stability, prosperity, infrastructure development, good governance, and private sector growth.

The United States is the largest or joint largest shareholder at all of the MDBs in which it is a member, except the African Development Bank, where the United States is the largest non-African shareholder. This status allows the United States to press MDB management for institutional reforms, financial and political support for major U.S. priorities, and higher standards in the international financial architecture. U.S. contributions to the MDBs leverage additional contributions from other shareholders and the MDBs themselves, providing a level of assistance that is significantly higher than what the United States could achieve bilaterally.

Over the past year, the United States worked to improve performance by driving reforms across all of the MDBs. These efforts included urging the MDBs to make better use of their existing financial resources and to better focus their support on poorer countries with less access to private capital. In addition, we advocated for the MDBs to implement better frameworks to ensure financial discipline, and we are working closely with the MDBs to update policies and practices on evaluation to build a stronger culture of results and accountability.

The United States also continued to encourage stronger attention to fiduciary, environmental, and social standards, and to the necessary resourcing to implement these safeguards so that MDBs set

the standard for high quality projects. This increases the likelihood of project success, positions U.S. companies and contractors well to compete, and creates an attractive alternative to the lower standards offered by competing institutions. As the United States carries out its duties to review, comment, and vote on MDB projects, it applies relevant legislative mandates and requirements from Congress. Treasury looks forward to engaging with Congress on how to ensure all mandates advance U.S. national interests and ensure U.S. leadership in the MDBs.

Below are the major developments for the World Bank, African Development Bank, Asian Development Bank, European Bank for Reconstruction and Development, Inter-American Development Bank, International Fund for Agricultural Development, and North American Development Bank.

World Bank

Performance in 2017: During the World Bank's fiscal year 2017 (covering July 2016 to June 2017), the World Bank committed \$61.7 billion in loans, technical assistance, concessional credits, grants, equity investments, and guarantees.

- The International Bank for Reconstruction and Development (IBRD) approved \$22.6 billion in loans and technical assistance to middle-income countries (i.e. countries with per capita gross national income above \$1,165 for the fiscal year 2018). Latin America and the Caribbean (23 percent) and Middle East and North Africa (21 percent) received the largest portion of the IBRD's new commitments, followed by Europe and Central Asia (20 percent) and East Asia and Pacific (19 percent).
- The International Development Association (IDA) approved \$19.4 billion in highly concessional credits and grants to the 75 poorest countries. More than half of IDA's annual commitments (\$10.6 billion) went to countries in Sub-Saharan Africa, followed by South Asia (19 percent) and East Asia and Pacific (13 percent).
- The International Finance Corporation (IFC), the private sector arm of the World Bank, approved \$11.9 billion in long-term investments from its own resources. The IFC mobilized an additional \$7.5 billion from other investors for development projects. Roughly 24 percent of the IFC's projects, accounting for \$4.6 billion in long-term investments, went to the world's poorest countries.
- The Multilateral Investment Guarantee Agency (MIGA) provided a record \$4.8 billion in guarantees for political risk insurance and credit enhancement. Of MIGA's FY 2017 projects, 45 percent were in the poorest countries, with 21 percent of new guarantees supporting fragile and conflict-affected countries.
- For IBRD and IDA, public administration, law, and justice (15 percent) and energy and mining (15 percent) were the two sectors that received the largest commitments.

Key Institutional Reforms: In 2017, the World Bank implemented several key initiatives, in addition to carrying out its regular lending activities.

- *World Bank Capital Review.* The World Bank began a review of its capital adequacy and financial capacity to support development priorities, with the aim of having shareholders decide on a reform and capital package in 2018. The World Bank examined reforms related to financial discipline and shifting resources to poorer countries.
- *The Accountability Agenda and the Implementation of the Environmental and Social Framework.* The World Bank’s environmental and social safeguards are an essential tool for avoiding or mitigating risks and impacts in World Bank-financed projects. In 2016, the World Bank approved a new set of safeguards, the Environmental and Social Framework, in order to increase the efficiency and effectiveness of safeguards through updated policies and improved implementation. The new framework expands the World Bank’s safeguards into several new important areas and strengthens its approach to social assessments. The World Bank has been working to develop guidance notes for World Bank staff and government officials in client countries as it prepares to begin using the new policies beginning in 2018.
- *Women Entrepreneurs Finance Initiative (We-Fi).* The World Bank launched a new facility dedicated to expanding access to financial services for women entrepreneurs and women-led small and medium enterprises (SMEs) in developing countries. The multi-donor facility currently has \$348 million in donor commitments provided by 14 countries, including the United States. The World Bank serves as Trustee and Secretariat of the facility and projects are implemented by the World Bank and other MDBs. The facility incorporates many of the principles of the World Bank’s Gender Equality Strategy, which was approved in 2015, and aims to reduce disparities in access to professional opportunities and ownership of assets and increase women’s voice and agency. The We-Fi governing committee, chaired by the United States, recently approved the first round of proposals for \$120 million in funding. This initial round of grant allocations is expected to mobilize over \$1.6 billion in additional funding, exceeding the original target for the entire facility of mobilizing \$1 billion over five years.
- *IDA-18 Replenishment.* In 2016, IDA donors and Management negotiated the IDA-18 replenishment, which covers the period from July 2017 to June 2020. To implement commitments made for IDA-18, IDA Management has begun to double resources for fragile and conflict-affected (FCV) states (including increasing staffing in FCV countries), determine the countries eligible for a \$2 billion set-aside for projects that benefit refugees and their host communities in IDA countries, and prepare its first issuance of debt backed by its equity (e.g., reflows and investments). The ability to borrow from the market will increase IDA’s overall commitment authority by more than 40 percent to approximately \$75 billion at the same or lower cost to donors.
- *“IFC 3.0” Strategic Approach.* IFC launched a new strategic approach that seeks to develop and expand private markets, with an increased focus on low-income countries and fragile and conflict-affected states. Under its new strategy, IFC will conduct more sophisticated diagnostics to identify obstacles to private investment, and collaborate more closely with the World Bank to address these obstacles. Other elements of the strategy

include ramping up the mobilization of third party private sector resources, improving development impact, and increasing support to IDA countries via de-risking, such as through the recently established IFC-MIGA Private Sector Window in IDA.

2018 Priorities: The United States has been engaged with World Bank Group management and shareholders to improve the development effectiveness and ensure the long-term financial discipline of the World Bank Group in the context of negotiations for an increase in shareholder capital at the IBRD and the IFC (the United States does not plan to contribute to any IFC capital increase). In April 2018, the World Bank Board of Governors welcomed a series of transformational reforms that reflect U.S. priorities. Treasury will be engaging with others in the Administration and with Congress to discuss the merits of the proposed package. Should the United States and other shareholders ultimately approve the proposed capital and reform package, Treasury's priority will be to ensure that the IBRD implements the following reforms in a timely manner:

- Establish a sustainable annual lending level for each year and a crisis buffer to be used in response to extraordinary, large crises. This will help constrain growth in IBRD lending levels and limit future requests for additional shareholder capital;
- Introduce an allocation framework that shifts more IBRD resources toward poorer, less creditworthy borrowers that have less access to other sources of finance;
- Apply increased loan prices to wealthier, more creditworthy borrowing countries;
- Instill stronger restraint on World Bank staff compensation; and
- Apply the IBRD's graduation policy more meaningfully.

Other key U.S. priorities for 2018 are: (1) continuing to advocate for our national security strategic priorities, including support for fragile and conflict affected states; (2) overseeing the application of the IFC's cascade approach and commitments of greater engagement in low-income countries; (3) reviewing the prudent implementation of policy commitments made in the current IDA replenishment period, including the IFC-MIGA Private Sector Window and the IDA-18 special development themes, with a mid-term review of IDA-18 in November; (4) ensuring the implementation of high-quality environmental and social safeguards through robust and substantive guidance notes; and (5) modernizing the independent accountability mechanism for the World Bank to ensure that communities have a strong voice if the World Bank does not follow its own rules and causes harm.

African Development Bank (AfDB)

Performance in 2017:

- AfDB financing approvals totaled \$8.4 billion. Approvals from the AfDB's non-concessional window were \$6.4 billion. Approvals from the concessional window, the African Development Fund (AfDF), were \$2.0 billion.

- Of the total AfDB non-concessional window approvals, sovereign loans and grants accounted for \$4.0 billion (62 percent) and private sector loans, investments, and guarantees accounted for \$2.5 billion (38 percent). Over forty percent of new AfDB financing was for infrastructure projects (primarily transportation, energy, and water supply and sanitation). Other key sectors include finance (e.g., microcredits to small businesses) and agriculture.
- Distribution of total AfDB approvals by sub-region: West Africa (20 percent); Central Africa (18 percent); East Africa (17 percent); North Africa (15 percent); Southern Africa (15 percent); and multiple sub-regions (15 percent).
- The AfDB provided financing to strengthen governance, create jobs, and develop a robust private sector in U.S. strategic priority countries in Africa, supporting stability and helping address the root causes of humanitarian crises and migration flows. This included \$1.1 billion in financing to Tunisia, Morocco, and Egypt in North Africa, and \$1.3 billion in financing to fragile and conflict-affected states.

Key Institutional Reforms: The AfDB is currently working to implement a set of institutional reforms designed to improve its efficiency and effectiveness. This reform agenda has three components: (1) realigning the Bank’s organizational structure around its five strategic priorities (energy, agriculture, industrialization, regional integration, and quality of life); (2) decentralizing staff and business operations to the field to improve project coordination and oversight; and (3) streamlining institutional policies and processes and placing an increased emphasis on results. The AfDB has made limited progress implementing the reforms, including instituting a new organizational structure and developing a new institutional results management framework, which includes approximately 100 indicators measuring development impact (e.g., jobs created) and institutional performance (e.g., efficiency ratios). The United States is working closely with AfDB Management on reform implementation, with particular attention to ensuring robust institutional oversight and accountability mechanisms.

2018 Priorities: Key U.S. priorities for the AfDB in 2018 include: (1) supporting effective implementation of critical elements of the Bank’s reform agenda, including improved implementation of audit and evaluation recommendations and strengthening project quality; (2) promoting financial sustainability through highly selective lending, with a particular focus on infrastructure; (3) identifying an initial set of priorities for AfDB capital negotiations, which may commence in late 2018; (4) overseeing delivery of resources under the fourteenth replenishment of the African Development Fund (AfDF-14) through the upcoming mid-term review in late 2018; (5) enhancing collaboration between the AfDB and U.S. agencies such as USAID and MCC; and (6) encouraging the AfDB to continue building its capacity to promote African private sector growth.

Asian Development Bank (AsDB)

Performance in 2017:

- Total AsDB financing approvals were \$19.1 billion. Sovereign approvals from AsDB's non-concessional Ordinary Capital Resources (OCR) were \$13.6 billion. Approvals for non-sovereign loans, guarantees, and investments totaled \$3.2 billion. Approvals for grants, concessional loans, and technical assistance from the Asian Development Fund (AsDF) and concessional OCR totaled \$2.3 billion.
- Top recipients of AsDB funding were China (14 percent), India (14 percent), Pakistan (11 percent), Bangladesh (10 percent), and Indonesia (10 percent).
- The AsDB's 2017 approvals largely focused on infrastructure, particularly for energy and transport (55 percent). The remaining approvals included financing for financial sector development (14 percent), water and urban infrastructure (9 percent), public sector management (6 percent), agriculture (5 percent), and education (4 percent).
- The AsDB provided notable support in the following areas: \$1.7 billion supporting water projects like water supply, sanitation, irrigation, and flood management throughout Asia; \$150 million to enhance the capacity and efficiency of Nepal's power distribution and transmission networks; and \$330 million to support the completion of Afghanistan's national ring roads, which will create jobs and boost trade.

Key Institutional Reforms: The United States focused on several areas of institutional reform at the AsDB in 2017. The U.S. closely monitored AsDB's capital adequacy models to ensure that the ramp-up in assistance as a result of the merger of the OCR and AsDF lending resources will remain financially sustainable. In particular, the United States has focused on ensuring that AsDB's lending levels remain in line with the projections that AsDB Management presented to shareholders at the time the merger was approved.

The AsDB also undertook significant procurement reform to include the addition of "quality" and "value for money" as procurement principles, as well as explicit support for the procurement of high-level technologies. This will help ensure that developing member countries receive high-quality products and services while improving the longevity of projects. Firms that provide a level of quality and innovation, such as those from the United States, voiced strong approval for these changes. AsDB's procurement reforms are also designed to streamline internal bureaucratic processes to accelerate project implementation.

Reforms in the areas of recruitment, staff mobility, performance management, and gender equality continued in 2017. Recruitment and mobility efforts centered on increasing flexibility in existing processes to streamline recruitment and broadened existing staff's skills, experiences, and opportunities. AsDB undertook several actions to improve institutional gender equality, particularly among international staff, including the creation of a Respectful Workplace Unit, increased workplace flexibility and work-from-home programs, and the initiation of a salary study to assess if any institutional pay gaps between men and women exist at AsDB.

2018 Priorities: Key U.S. priorities for the AsDB in 2018 include: (1) shaping the development and approval of Strategy 2030, which we anticipate will be finalized later this year; (2) promoting adoption of reforms to loan pricing and resource allocation to boost AsDB's focus on supporting countries with less access to other sources of finance; (3) deepening institutional capacity to ensure that AsDB can effectively utilize its greater financial capacity following the merger of OCR and AsDF lending resources; (4) continuing to ensure that lending volumes do not outstrip the projections that Management provided when shareholders approved the merger; (5) tracking implementation of the commitments from the Asian Development Fund's latest replenishment (AsDF-12), including strengthening the approach to fragile states and small island countries and setting aside resources to assist countries with disaster risk management; and (6) undertaking human resources reforms to boost staff morale, strengthen merit-based hiring and promotion, build private sector expertise, and attract and retain more female staff.

European Bank for Reconstruction and Development (EBRD)

Performance in 2017:

- EBRD investments in 2017 reached \$11.6 billion.
- The top recipients of investments were Turkey (16 percent), Egypt (15 percent), Ukraine (8 percent), Poland (7 percent), and Greece (6 percent). The EBRD also continued to increase investments in the early (less advanced) transition countries (ETCs), such as Armenia, Georgia, and Moldova. EBRD business volume for the ETCs reached \$1.7 billion in 2017, representing a 75 percent increase from 2016.
- EBRD business volume in 2017 was concentrated in the following sectors: financial institutions (30 percent), infrastructure (25 percent), industry, commerce, and agribusiness (23 percent), and energy (21 percent).
- The EBRD provided notable support in the following areas: more than \$880 million in commitments for Ukraine to support the government's reform efforts; more than \$2.6 billion in investments to support transition in Jordan, Egypt, Morocco, and Tunisia; and continued assistance to Jordan and Turkey to address the Syrian refugee crisis.
- In response to strong guidance from the United States and other key shareholders, EBRD management has not brought forward any new projects for Russia since July 2014.

Key Institutional Reforms: In 2017 the United States and other shareholders approved a new Economic Inclusion Strategy for the EBRD, focused on its private sector-based model that combines investments and policy activities to advance economic inclusion and increase opportunities for women and girls, young labor market entrants, and populations in less advanced regions. The Board of Directors approved a new EBRD Extractive Mining Industries Strategy, which emphasizes the importance of transparency of contracts and licenses, and adherence to the EBRD's Environmental and Social Policy. In 2017 EBRD Governors approved Lebanon as a new recipient country. The EBRD also continued implementation of its

Operational Effectiveness and Efficiency program to improve internal processes and reduce costs.

2018 Priorities: Key U.S. priorities for the EBRD in 2018 include: (1) helping the EBRD develop a workable graduation framework for countries that are advanced in their transitions to sustainable market economies; (2) pushing EBRD Management to strengthen measures around the EBRD's cost/income ratio, making use of the full range of measures, including limiting growth in staff compensation, to control costs; (3) ensuring that U.S. objectives are incorporated in the 2018 review of the EBRD's energy strategy; (4) pursuing strong U.S. governance objectives in the preliminary work undertaken in 2018, for decision in 2019, on reviews of the EBRD's Environmental and Social Policy, Public Complaint Mechanism, and Public Information Policy; (5) providing continued assistance to Ukraine in support of its reform efforts; and (6) continuing support for refugee populations and host communities in Jordan, Lebanon, and Turkey.

Inter-American Development Bank (IDB)

Performance in 2017:

- The IDB approved \$11.4 billion in loans and grants in 2017 to its 26 borrowing member countries in Latin American and the Caribbean.
- IDB Invest, the arm of the IDB Group that solely focuses on the private sector, originated \$3.2 billion in loans and equity investments in 2017.⁴ The investments were concentrated in the following areas: infrastructure (36 percent), trade finance (23 percent), and financial institutions (22 percent). Almost a quarter of the investments went to the region's small and vulnerable countries.
- The Multilateral Investment Fund (MIF) approved \$85 million in grants, loans, and equity to strengthen the business environment and benefit poor and low income populations by working directly with businesses, farms, households, non-governmental organizations, and public sector partners.
- Top recipients of IDB lending in 2017 were Argentina (18 percent), Mexico (17 percent), Brazil (17 percent), and Colombia (9 percent). Small and vulnerable borrowing countries received 34 percent of new loan approvals.
- IDB lending was spread across many sectors, with the largest amounts going to infrastructure and energy (38 percent), reform/modernization of the state (17 percent), financial markets development (10 percent), and social sector (8 percent).
- The IDB provided notable support in the following areas: \$423 million in approvals for the Northern Triangle countries (El Salvador, Guatemala, and Honduras), coupled with

⁴ Of this \$3.2 billion, \$1.1 billion was financed by IDB Invest's balance sheet and \$2.1 billion financed by the IDB's balance sheet. IDB Invest originates and manages all IDB Group private sector investments; however, some of these investments are currently financed by the IDB's balance sheet during a transition period running through 2022.

advice for the governments on the design of reform programs to address the root causes of migration; \$285 million in approvals to Jamaica to help it rationalize public spending, improve homicide investigations, provide government identification, and use energy more efficiently; and \$128 million in approvals to support economic growth and poverty reduction in Haiti, including a \$65 million project to enhance water and sanitation services. The IDB also partnered with the Caribbean Development Bank to help the region recover from Hurricanes Irma and Maria.

Key Institutional Reforms: The merger of the IDB's concessional window (the FSO) with its ordinary capital took effect at the beginning of 2017. The merger has enhanced the IDB's ability to provide concessional lending to the region's poorest countries while substantially strengthening its key capital adequacy ratios. This should allow the IDB to remain financially sustainable in the years ahead.

In 2017, IDB Invest and the MIF executed significant institutional reforms to improve efficiency and impact. In 2016, the IDB Group's private sector operations were consolidated under IDB Invest, and IDB Invest initiated a significant reform agenda. IDB Invest advanced implementation of these reforms in 2017 – including further expanding its field presence and introducing new tools to enhance selectivity and a new risk management framework – and was able to increase investments by almost 50 percent and double mobilization of private finance from 2016. In 2017, donors agreed to the third replenishment of the MIF, providing resources for 2019-2023. The U.S. did not participate in the replenishment. Critically, the region's borrowing countries will provide more than half of the resources for the MIF replenishment. Concurrently, the MIF commenced a substantial restructuring to streamline activities, operations and staffing, which allowed it to reduce its 2018 operating budget by 14 percent.

2018 Priorities: Key U.S. priorities for the IDB include: (1) continuing to enhance and refine the IDB's approach to facilitate private sector growth and catalyze private investment in the region, including infrastructure investment; (2) overseeing implementation of the remaining elements of IDB Invest's reform agenda; (3) collaborating closely with the IDB and other partners to support reforms and deliver assistance in the Northern Triangle countries of Guatemala, Honduras, and El Salvador; and (4) taking the opportunity provided by a new director for the IDB's independent evaluation office (OVE) to further strengthen the role of evaluation and learning at the IDB.

International Fund for Agricultural Development (IFAD)

Performance in 2017:

- In 2017, IFAD approved \$1.25 billion for new projects and \$51 million for grants under IFAD's global, regional, and country grant program.
- The regional distribution of IFAD approvals in 2017 was: Asia and the Pacific (36 percent); Eastern and Southern Africa (21 percent); Western and Central Africa (15.2 percent); Latin America and the Caribbean (6.6 percent); and Near East, North Africa, and Europe (21.2 percent).

- IFAD’s ongoing portfolio covered a range of sectors at end-2017, including agriculture and natural resource management (33 percent of IFAD financing), market and related infrastructure (16 percent), rural financial services (13 percent), community-driven and human development (10 percent), policy and institutional support (8 percent), and support for small and micro enterprises (8 percent). A variety of other efforts, including disaster mitigation and monitoring and evaluation, accounted for about 13 percent of IFAD funding.

Key Institutional Reforms: IFAD’s new president—Gilbert Houngbo, the former Prime Minister of Togo—assumed office in April, 2017, and has taken positive steps to enhance IFAD’s efficiency and impact. In particular, a new “Operational Excellence” (OpEx) initiative aims to prepare IFAD for more effective delivery of a larger work program. Through the OpEx, IFAD will accelerate its decentralization of operations to the field, and implement new processes to shorten project delivery time, speed up disbursements, and improve overall results. IFAD anticipates that the OpEx reforms will enhance IFAD’s value for money proposition so as to maximize the impact of each dollar spent and/or invested.

IFAD’s membership conducted consultations for the IFAD-11 replenishment over the course of 2017, and concluded negotiations in December 2017. Management committed that IFAD will allocate 90 percent of its core resources to low income and lower-middle income countries during the IFAD-11 period (2019-2021), which was a U.S. priority. Members and management will also work to develop a transition framework that will delineate how IFAD will tailor its support to different countries based on their income levels and specific conditions. Finally, IFAD will continue to explore the feasibility and tradeoffs of potentially borrowing from the market in the future, but IFAD will not borrow from the market during the IFAD-11 period.

In its 2017 report, IFAD’s Office of Independent Evaluation (IOE) highlighted solid project performance along with some areas for improvement. The IOE noted that IFAD’s performance has shown a positive trend since 2009, although overall performance has begun to plateau. Still, IFAD’s project performance in all regions continues to be comparable to that of the agricultural sector portfolio of the World Bank even though IFAD tends to work in remote rural areas. From 2013-2015, 81 percent of operations rated moderately satisfactory or better in overall achievement. The IOE also highlighted the need for IFAD to strengthen its operations to address performance bottlenecks, adopt new approaches to address the root causes of gender inequality, systematize the use of non-lending activities in country programs, and improve data granularity to better monitor performance.

2018 Priorities: Key U.S. priorities for IFAD in 2018 include: (1) supporting measures, projects, and programs that will further U.S. food security priorities, and engaging with IFAD in a manner that enhances U.S. national interests and delivers results; and (2) working with other member states to continue preparing IFAD to deliver a higher and more impactful work program over the IFAD-11 period that focuses on alleviating rural poverty in the poorest countries.

North American Development Bank (NADB)

Performance in 2017:

- NADB approved \$280.6 million in financing in 2017. This included \$273.1 million in loans, \$6.2 million in grants, and \$1.2 million in technical assistance.
- The sectoral breakdown of NADB's outstanding portfolio (by volume) at the end of 2017 was wind energy (48 percent), solar energy (23 percent), water and wastewater (13 percent), air quality (7 percent), storm drainage (4 percent), and basic urban infrastructure (3 percent).
- At the end of 2017, 63 percent (52 projects) of NADB's outstanding portfolio was in Mexico, and 37 percent (19 projects) was in the United States.

Key Institutional Reforms: In 2017, NADB continued steps to carefully manage available capital to protect its credit rating, including mitigating risk by limiting concentration in specific project sectors and decreasing average loan size, while still maintaining technical assistance and advisory services to communities in need. NADB also strengthened its financial capacity by boosting non-interest income such as commitment, advisory, trust, and administrative fees.

In November 2017, the NADB and the Border Environment Cooperation Commission (BECC) formally completed the merger of the two institutions, which the NADB/BECC Board of Directors recommended in a resolution passed in December 2014. The merger marks a significant milestone in the evolution of NADB and BECC and will enable the joint entity to improve efficiencies, offer improved services to borrowers, and better fulfill NADB and BECC's mission to preserve, protect, and enhance the environment of the border region in order to advance the well-being of the people of the United States and Mexico. NADB recruited its first Chief Environmental Officer (CEVO), a position created as a result of the merger to ensure the environmental integrity of NADB's operations and the continuation of core BECC functions.

NADB also enhanced its results measurement by compiling, for the first time, an aggregate report summarizing all completed project close-out reports. The aggregate report provides a comprehensive overview of indicators for each sector where it operates, project achievements, and lessons learned and areas for improvement.

2018 Priorities: In 2018, key priorities for NADB are: (1) continued efforts to strengthen the NADB's capital position; (2) developing a strategic plan for the NADB's core and emerging sectors in coming years, including continuing to build results measurement and evaluation capabilities and focusing on more economically impactful projects that fit NADB's mission and require NADB resources to catalyze private investment; (3) monitoring the performance of the merged NADB/BECC; and (4) integrating the new Chief Environmental Officer position, created following the merger, into the institution's management and operations.

Report on IDA Contribution to Graduation

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

IDA provides highly concessional loans and grants to the poorest countries, with the aspiration that countries achieve levels of growth and institutional capacity that allow them to finance their development needs from a mix of non-concessional resources from the public sector, market borrowing, private investment, and their own domestic resources, facilitating graduation from IDA. The United States believes that IDA should direct its scarce concessional resources to the poorest countries that have the most limited access to other sources of finance. Reviewing the process by which IDA helps its richer, more creditworthy clients sustainably graduate from reliance on concessional resources was an important priority for the IDA-18 replenishment negotiations that occurred in 2016.

The IDA graduation process is normally triggered when a country's per capita gross national income exceeds the “operational” graduation threshold (\$1,185 for World Bank fiscal year 2018) for at least two consecutive years and the country is deemed creditworthy enough to receive loans from the World Bank's IBRD. The process involves phasing out IDA lending and phasing in IBRD lending. Before a country fully graduates, there is typically a transitional stage of undetermined length, known as “blend” status, during which countries can access both IDA and IBRD resources. There are currently 16 blend countries: Cabo Verde, Cameroon, Republic of Congo, Dominica, Grenada, Kenya, Moldova, Mongolia, Nigeria, Pakistan, Papua New Guinea, St. Lucia, St. Vincent and the Grenadines, Timor-Leste, Uzbekistan, and Zimbabwe. While eligible, Zimbabwe does not currently receive IDA or IBRD financing due to protracted non-accrual status.

To date, 35 countries have graduated from IDA. Bolivia, Sri Lanka, and Vietnam graduated in July 2017 at the beginning of the IDA-18 period. However, since there is a constraint on the amount of IBRD lending they can access, these countries remain eligible for a limited amount of transitional assistance from IDA during IDA-18 to avoid a precipitous drop in development resources. India completed this transition period and is no longer eligible for IDA transition assistance as of the beginning of IDA-18.

As part of the IDA-18 replenishment negotiations, IDA Management committed to make recommendations to improve the management of the “blend” period so as to better prepare countries for graduation from IDA, which it will begin presenting at the IDA-18 Mid-Term Review in November 2018.

Annex on IMF Exceptional Access Programs

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

Ukraine

In March 2015, the IMF Executive Board approved a 4-year Extended Fund Facility (EFF) arrangement for Ukraine in the amount of SDR 12.35 billion or approximately \$17.5 billion (614 percent of Ukraine’s quota). At the time of program approval, the conflict in Eastern Ukraine had taken a significant toll on the industrial base and exports, undermining confidence and putting pressure on the financial system. The program aims to support Ukrainian efforts to stabilize economic conditions, strengthen fiscal sustainability, restore banking system health, reform the energy sector, and strengthen the business investment climate, particularly by tackling corruption. The IMF has disbursed roughly \$8 billion to Ukraine under the current program.

Ukraine has made progress on economic reforms, including reducing large deficits at state-owned enterprises and taking significant steps to clean up and strengthen the financial sector. However, the IMF’s fourth review has been ongoing since April 2017 and has proven to be the most politically challenging to date. It requires passing legislation establishing an independent anti-corruption court (ACC), privatization, utilizing an automatic gas price adjustment mechanism (under a formula developed by the current Ukrainian government in consultation with the IMF), and pension reform. Ukraine’s parliament has passed a pension reform law and privatization legislation, but both require further changes to become fully compliant with the IMF program.

Ukraine will need to implement key structural reforms, including land reform, price liberalization and de-monopolization to achieve sustainable economic growth. Fulfilling the IMF program conditions will be critical to help provide resources and improve Ukraine’s ability to service its debt – which includes \$3 billion in U.S. loan guarantees, the first of which comes due in May 2019 – and maintain market access.

Argentina

In June 2018, the IMF Executive Board approved a three-year Stand-By Arrangement (SBA) for Argentina in the amount of SDR 35.379 billion or approximately \$50 billion (1,110 percent of Argentina’s quota). In early 2018, Argentina began to experience exceptional capital account pressure due to the tightening of global financial conditions and the shift of portfolio preferences away from peso assets. The program’s objectives are to bolster market confidence and reduce Argentina’s balance of payments vulnerabilities to allow for greater economic growth and investment. The program is focused on fiscal adjustments combined with protections for

vulnerable populations, reducing inflation, increasing the independence of the central bank to improve credibility, and a flexible exchange rate regime with intervention to limit market disruption. The Board's decision allowed the IMF to immediately disburse \$15 billion to Argentina under the new program. Argentine authorities intend to treat the remainder of the arrangement as precautionary.