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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INTRODUCTION[1]

The international financial institutions (IFIs) play an essential role in the international financial system, further U.S. and global security interests, support U.S. and global economic growth and jobs, and help maintain open markets and financial stability. The IFIs fight poverty, address environmental challenges, help 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 many of these institutions, and the United States remains the largest or joint largest shareholder in all of them, except the African Development Bank where the United States is the most significant non-African shareholder. The United States uses its shareholding, our voice on the governance bodies, and convening power to proactively shape IFI policies and activities. Passage of International Monetary Fund (IMF) quota and governance reform legislation by Congress in December 2015 was an important step in retaining America's strong leadership position in these vital institutions, which advance our national security, our economic interests, and our values.

For 70 years, the 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 financial crises in the 1970s, supported the resolution of the Latin American debt crisis of the 1980s, and supported economic transition in Eastern Europe and the former Soviet Union in the 1990s. The IMF was also central to the response to the Asian and emerging market financial crisis in the late 1990s and early 2000s.

The IMF remains the foremost international institution for promoting global financial stability. 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, enhancing U.S. national security, and alleviating poverty in its member countries. At a time of increased economic uncertainty, the IMF is actively working with countries vulnerable to low oil prices, financial market volatility, and other external shocks to provide policy advice and financing, when appropriate.

The IMF was a first responder providing significant financial support to Ukraine, helping a key U.S. ally sustain momentum on economic reform in the face of Russian aggression and make progress in addressing endemic corruption. In the Middle East, where IMF engagement reduces economic vulnerabilities in key U.S. allies, the IMF has recently concluded programs that helped restore economic stability in Jordan and Tunisia. In addition, the IMF is providing Iraq with technical assistance and policy advice under a Staff Monitored Program that will help the Iraqis take steps to address the large fiscal gap resulting from the oil price shock and the fight against

[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).

ISIL. In the euro area, the IMF continues to work alongside the European institutions to promote economic growth and stability, including through post-program monitoring of successfully concluded programs in Ireland and Portugal. With the program in Cyprus winding down by mid-2016, the IMF's engagement is shifting to technical assistance to support progress toward potential reunification. In its ongoing policy engagement with Greece, the IMF seeks to facilitate Greece's return to economic growth through an appropriate combination of reform, financing, and European debt relief. The IMF also supports the Sustainable Development Goals through capacity building and financing for low-income countries, actively encourages transparency and accountability in all of its member countries, and works with the G-20 to encourage policies that foster strong, sustainable, and balanced global growth.

Alongside the IMF, the multilateral development banks (MDBs), which include 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, are essential instruments to promote U.S. national security, support broad-based and sustainable economic growth and job creation, and address key global challenges like environmental degradation, while fostering 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 promote global stability, prosperity, infrastructure development, and private sector growth in line with the ambitious 2030 Sustainable Development Agenda and the Sustainable Development Goals that world leaders adopted in 2015.

MDB investments in developing and emerging economies—in infrastructure, health, and education—foster private sector development in these countries, which creates new markets for U.S. exports and jobs for American workers. The MDBs, often alongside the IMF and as complements to U.S. bilateral assistance, have been key partners on important priorities such as bolstering Ukraine's economy against the effects of conflict, responding to the refugee crisis in the Middle East and North Africa, increasing citizen security in Central America, supporting recovery from natural disasters like the Nepal earthquake, and expanding infrastructure in Asia, Africa, and Latin America.

The United States is committed to maintaining its leadership position in the MDBs. Throughout 2015, the United States promoted policy reforms across the MDBs to modernize their governance, make optimal use of their existing financial resources, strengthen their effectiveness in supporting countries' development, and improve their efficiency while maintaining the high social, environmental, and fiduciary standards.

This report covers the period from January 2015 to January 2016 and looks at prospects for the remainder of 2016. 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

The United States plays a key role in shaping IMF policy and institutional issues through its role as the IMF's largest shareholder, and participates in the IMF financially through a quota subscription[2] and a contribution to the IMF's financial backstop, the New Arrangements to Borrow (NAB). The United States has a voting share of 16.5 percent, and is the only IMF member country with the ability to veto major institutional decisions.

Congressional approval of IMF quota and governance reforms in December 2015 was a watershed moment for U.S. participation in the IMF, enabling the IMF to implement a key set of reforms to its governing structure and voting rights championed by the United States and approved by the international community in 2010. These reforms follow through on efforts begun in 2006 to modernize the IMF's governance structure so that it better reflects today's global economy and to strengthen the IMF's legitimacy and its central role in the international monetary and financial system.

The United States consented to the 2010 reforms in January 2016, and the IMF implemented the reforms in February 2016. The 2010 reforms: (1) double the IMF's core quota resources,[3] with a corresponding rollback of the NAB; (2) amend the IMF's Articles of Agreement to move to an all-elected Executive Board; (3) increase the IMF's legitimacy by shifting more than 6 percent of quota shares to dynamic and under-represented emerging market and developing countries; and (4) preserve the quota and voting shares of the poorest member countries. Under the reforms, the United States will retain its current seat in the Executive Board and maintain its voting share above 15 percent preserving veto power without increasing the overall financial commitment to the IMF, as the increase in the U.S. quota is fully offset by a decrease in U.S. contribution to the NAB.

Following the increase in the IMF's core quota resources, the IMF reduced the size of the NAB (as agreed in the 2010 reform package), and also deactivated it. The NAB is a set of standing borrowing arrangements with 38 financially strong members, including the United States, and provides an important supplement to the IMF's core quota resources. The international community decided to enlarge the NAB in 2009 as part of the emergency response to the global financial crisis. The IMF can tap resources from the NAB to finance programs the IMF approves while the NAB is "activated". A decision to activate the NAB requires approval by an 85 percent share of the NAB membership. The United States (with a 15.4 percent share of the NAB following implementation of the 2010 reforms) has a veto over such decisions. The NAB had been activated for successive six-month periods from March 2011 through March 2016, allowing the IMF to use the NAB to cope with the elevated risks and financing needs of the global financial crisis. The IMF decided to deactivate the NAB in February 2016, cutting short the

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[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.

[3] The IMF will adjust downward its access limits and thresholds for surcharges (both are expressed as a percentage of a country's quota), to take into account that country quotas have doubled, on average.

most recent activation period, so that all new financial commitments from the IMF will be financed by quota resources.

The delay in U.S. consent to the 2010 quota and governance reforms also delayed the IMF's quinquennial regular review of its quota resources. The fifteenth review of IMF quotas was originally scheduled to conclude in 2015, but is now set to conclude by October 2017. Some IMF member countries, particularly under-represented emerging market countries, may argue for a substantial further increase in IMF quota resources during the fifteenth review, as a way to provide space for further shifts in voting shares. Other member countries, however, may advocate for the review to conclude without an increase, considering the recent doubling of quotas. There is broad support for review of the formula governing quota shares (currently comprised of variables representing GDP, openness, economic variability, and international reserves), but reaching a deal on changes will not be easy.

IMF Financing and Policy Developments in 2015

The IMF plays a vital 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 the world's first responder to financial crises, IMF financing continues to play an indispensable role in protecting the U.S. economy – and the prosperity of American workers, households, and businesses – from the destabilizing effects of crises abroad. The IMF complements its financing with expert analysis and technical advice, and helps countries build capacity to manage their economies more effectively.

At the end of 2015, the IMF had 17 financing arrangements in place using its general resources for a total of $114 billion, including four precautionary arrangements totaling $70 billion. New financing arrangements executed during 2015 include Kenya, Kosovo, Serbia and Ukraine, and the IMF also renewed precautionary arrangements with Colombia and Poland. In addition, the IMF provided Rapid Financing assistance (provided in a single tranche, rather than through a financing arrangement) for Iraq. There were no new financing arrangements in January 2016.

With regard to the IMF's concessional resources for low-income countries, at the end of 2015 the IMF had 20 financing arrangements in place for a total of $2.4 billion. During 2015, the IMF agreed on new concessional financing arrangements with Ghana, Guinea-Bissau, Haiti, Kenya, Kyrgyz Republic, Mozambique and Sao Tome and Principe. In addition, the IMF provided a total of $135 million in single-tranche Rapid Credit assistance for Central African Republic, Dominica, Gambia, Liberia, Madagascar, Nepal, and Vanuatu. There were no new concessional financing arrangements in January 2016.

The IMF also reformed a number of key policies during 2015 and January 2016, created a new debt relief facility, and approved changes to the composition of the Special Drawing Rights basket of currencies:

- *Exceptional Access Framework and Systemic Exemption.* In a January 2016 review of the IMF's lending framework, the IMF Executive Board voted to repeal the systemic risk exemption to the debt sustainability criterion of its exceptional access framework. The exemption had allowed the IMF to lend to countries whose debt was unsustainable if the negative spillovers from the country would have had a systemic impact on the global financial system. Now, IMF support above normal access limits is only an option if a country's debt is sustainable over the medium term with a high probability or, in cases where a country's debt is sustainable but not with a high probability, the country's debt sustainability is strengthened through additional (non-IMF) contributions from bilateral creditors, multilateral financing agencies, or the private sector, including possibly through debt reprofiling.

- *Catastrophe Containment and Relief Trust.* In February 2015 the IMF created a facility to provide grants for debt relief for low-income countries hit by catastrophic natural disasters or public health disasters. The relief on debt service payments is aimed at freeing up resources to meet exceptional balance of payments needs created by a disaster, and to support containment and recovery efforts. The IMF subsequently provided debt relief to Liberia, Guinea and Sierra Leone through the facility, in light of the catastrophic impacts of the Ebola epidemic in these countries.

- *Debt Limit Policy.* In June 2015 the IMF implemented a reform of its Policy on Public Debt Limits in Fund-Supported Programs, which guides the use of public debt conditionality in IMF programs. Key changes include: (1) broadening the policy to encompass all public debt rather than only external public debt; and (2) taking into account the combination of concessional and non-concessional external debt (rather than focusing only on non-concessional debt). The new policy is both more comprehensive and more nuanced. It seeks to provide additional flexibility for countries that are managing their overall debt prudently, while capturing a fuller picture of debt vulnerabilities and recognizing continued weaknesses in debt management capacity, particularly in low-income countries.

- *Finance for Development.* In July 2015, the IMF increased access to concessional lending facilities for low-income countries, scaled up its technical assistance to low-income countries for domestic resource mobilization, and enhanced its diagnostic toolkit to help low-income countries make sound decisions on infrastructure investment. The IMF took these steps ahead of the Finance for Development Conference in Addis Ababa, Ethiopia.

- *Special Drawing Rights Basket.* During the IMF's five-yearly review of the SDR[4] basket in November 2015, the IMF staff determined that the Chinese RMB met the existing technical criteria for inclusion, and the Executive Board approved inclusion of the RMB

[4] The SDR is an international reserve asset, created by the IMF in 1969 and is not a currency itself. It is held as part of the reserves of member countries and can be traded among them to obtain the freely usable currencies of IMF members. The SDR is also used by the IMF as a unit of account. IMF lending arrangements are denominated in SDR.

in the basket which will be effective October 2016. The value of the SDR will then be based on a weighted average of the values of the U.S. dollar, euro, the Chinese renminbi, Japanese yen, and British pound. The criteria for inclusion in the SDR basket include the value of exports, and the "free usability" of the currency.

- *Non-Toleration of Arrears to Official Creditors.* In December 2015, the IMF revised its Policy on Non-Toleration of Arrears to Official Creditors. The IMF has had a long-standing policy of refraining from lending to countries that have arrears to official creditors, unless such creditors provide consent. The new policy aims to strengthen incentives for collective action among official bilateral creditors when official sector involvement in a debt restructuring is necessary, while still valuing the contribution of official creditors and permitting lending into official arrears only in highly-circumscribed circumstances. Importantly, the new policy permits lending into official arrears in cases where the borrowing country is acting in good faith in seeking restructuring of an official sector claim, in line with the macroeconomic parameters of an IMF program.

U.S. Policy Goals and Prospects at the IMF in 2016

Looking forward, the United States will promote a range of important policy goals within the IMF in 2016, leveraging the influence and good will generated from the recent passage of IMF quota and governance reforms.

Timely crisis response. Maintaining the IMF's ability to respond rapidly and effectively to countries in crisis is essential. Global economic risks have increased for some IMF member countries, including emerging market countries weathering financial market volatility and tighter financing conditions, and commodity-dependent economies, particularly oil exporters struggling to adjust to persistent low prices. In this context, in early 2016 the IMF will review the strength of the global financial safety net, including the scope of the IMF's financing toolkit and how IMF assistance fits together with other sources of economic and financial support. In these policy discussions, the United States will emphasize the strength of the IMF's quota-based resources following quota reform, and will encourage the IMF to promote the use of its precautionary facilities, the Flexible Credit Line (FCL) and Precautionary and Liquidity Line (PLL) for countries with appropriate policies. The United States will also urge the IMF to work cooperatively with the MDBs, each according to its comparative advantage, such that MDB budget support for countries impacted by commodity price declines takes place in the context of sound macroeconomic frameworks.

Debt sustainability for low-income countries. The IMF and World Bank will review their joint Debt Sustainability Framework (DSF) for low-income countries in 2016. This review will take place in the context of rising debt sustainability risks, particularly for commodity exporters and "frontier" low-income countries that are relying increasingly on non-concessional sources of finance including Eurobond issuance. After steady improvement during 2007-2013 of low-income country indicators of risk of debt distress, the proportion of such countries at low risk of debt distress has declined from 34 percent to 27 percent during 2014-2015, while those at high risk of debt distress has edged up from 24 percent to 26 percent. The United States will continue to strongly support robust application of the joint DSF as a tool for early identification of risks through forward-looking analysis.

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 robust surveillance the global imbalances, such as those that contributed to the global financial crisis, could go unaddressed and pose a threat to future global economic stability. Going forward, the United States will continue to advocate 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 (as these reviews are the primary vehicle for bilateral surveillance).

The IMF conducts a comprehensive review of its surveillance practices every three years, most recently in 2014. The 2014 review pointed to the following priorities for improvement: regularly analyzing spillovers and cross-country issues, conducting in-depth risk assessments in bilateral and multilateral surveillance products, improving financial sector surveillance, publishing assessments of external balances, and improving the evenhandedness and consistency of IMF policy advice. The United States will continue to strongly support IMF Management's Action Plan to improve surveillance in line with these recommendations, including recent steps such as piloting new types of analysis to better understand linkages between the financial sector and the real economy, extending newly-developed "external balance assessments" across a broader set of countries, and putting in place a mechanism for reporting and assessing country concerns about consistency of the IMF's 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 contribution to growth and development. In September 2010, the IMF decided to undertake financial stability assessments for jurisdictions with systemically important financial sectors, which include the United States, at least once every five years as a mandatory part of IMF surveillance. The IMF released the results of its second FSAP review of the United States in April and July 2015.

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. The IMF's collection and publication of comparable data – including on exchange rates and reserves – remains a top U.S. priority. In a review of the Data Standards Initiatives in March 2015, the IMF decided to focus greater attention on helping the 113 countries that participate in the basic General Data Dissemination Standard (GDDS) to graduate to the more rigorous Special Data Dissemination Standard (SDDS). The United States strongly supports the push to focus technical assistance resources on GDDS countries and use surveillance reviews to call attention to priorities for filling data gaps and improving data dissemination. Notably, in October 2015 China subscribed to the SDDS, which will help provide better information across a number of data categories, including China's reserve holdings.

The IMF is also focusing on expansion of its new, highest tier of data transparency, "SDDS Plus", which includes additional data categories particularly relevant for the 25 economies with systemically important financial sectors. In 2014, seven countries joined the United States in adhering to the IMF's SDDS Plus standard, and the United States continues to urge additional countries to join.

Budget Discipline. With consistent pressure from the United States in favor of a flat real budget, the IMF has maintained a relatively tight budgetary framework in recent years, albeit with some increased resources to address the incremental workload associated with the global financial crisis. The IMF's initial FY2017 budget proposal calls for a minimal real increase to cover growing physical and IT security costs. The IMF's medium-term budget will likely grow modestly in real terms to support additional physical security needs both at headquarters and in field offices, and to improve IT security throughout the organization. Modest increases will also support new analytical frameworks, training, and knowledge sharing. The United States continues to advocate for IMF budgetary stringency, and press the IMF to identify budgetary offsets for new priorities rather than support budget increases in real terms. The United States also continues to advocate for discipline in the IMF's capital budget, particularly as the IMF completes renovations of its original headquarters building and seeks to keep cost over-runs in check.

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 since the previous NAC Report was issued.

U.S. participation in the MDBs (1) fosters U.S. national security by supporting MDB engagement with fragile and conflict-affected states (e.g., Liberia and Ukraine) and providing assistance that addresses the root causes of instability; (2) promotes U.S. economic growth through exports by helping the MDBs cultivate emerging markets; (3) responds to global crises, such as the refugee crisis in the Middle East and North Africa, and builds countries' resilience to future crises; and (4) addresses critical global priorities, such as energy security, environmental sustainability and resilience, and food security.

The United States is the largest or joint largest shareholder at all of the MDBs, 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, for financial and political support for major U.S. priorities, and for higher governance, procurement, environmental and social standards in the international financial architecture. Meeting U.S. commitments to capital increases for the MDBs is critical to preserve this shareholding status, and to maintain credibility, leadership, and influence as new players assert themselves in the multilateral system.

It is important to underscore that the United States has a significant amount of unmet commitments at the MDBs, and paying them down will increase opportunities for the United

States to further direct policy discussions and reforms at these institutions. Meeting U.S. commitments to replenishments for the MDBs strengthens and expands the MDBs' financial capacity, which ensures that the world's poorest countries have access to concessional loans and grants. In addition, U.S. contributions to the MDBs leverage significant additional contributions from other shareholders and the MDBs themselves, allowing for a level of assistance that is significantly higher than what the United States could achieve bilaterally. A sound financial footing is critical, as the MDBs ramp up support in a number of strategically important areas, including assisting Ukraine, helping low-income countries that are affected by the decline in commodity prices mobilize higher levels of domestic resources for development, bolstering citizen security in Central America, addressing the needs of refugees and host communities, and co-financing projects as part of the President's Power Africa initiative.

Over the past year, the United States identified several priorities across all of the MDBs and will continue to advance them in 2016. A key priority is responding to the G-20's call for the MDBs to make optimal use of their existing financial resources to expand the level of support available to developing countries. Another priority is working closely with the MDBs to update their policies and practices on evaluation so as to build a stronger culture of results, accountability, and learning. The United States has also encouraged stronger attention to environmental and social safeguards standards, and to robust resourcing and implementation of these standards.

As the world evolves, so must the MDBs' membership and governance. The United States is reviewing options for improving governance structures so as to reflect the growing weight of emerging markets in the global economy. The United States is encouraging emerging markets, as they take on a greater role in these institutions, to also take on greater responsibility, including contributing more financial resources to assist the MDBs' poorest and least creditworthy country clients.

In line with President Obama's recent Executive Order, the United States is working with the MDBs to mainstream climate resilience considerations in their activities and promote collection and sharing of climate resilience data. The MDBs are a central pillar of climate finance and will be important partners for developing countries seeking a low-carbon economic development path. The MDBs have committed to significantly increasing their climate investments and ensuring that their development programs consider climate risks and opportunities. The United States will work with the MDBs to ensure an effective and efficient approach to these commitments.

Below are the major developments and upcoming U.S. priorities for each MDB.

World Bank

<u>World Bank Performance in 2015</u>: During the World Bank's fiscal year 2015 (FY 2015, covering July 2014 – June 2015), the World Bank committed $59.8 billion in loans, technical assistance, concessional credits, grants, equity investments, and guarantees.

- *The International Bank for Reconstruction and Development (IBRD) approved $23.5 billion in loans and technical assistance to middle-income countries.* Europe and Central

Asia (28 percent) and Latin America and the Caribbean (24 percent) received the largest portion of the IBRD's new lending, followed by East Asia and Pacific (19 percent).

- *The International Development Association (IDA) committed $19.0 billion in highly concessional loans and grants to the 77 poorest countries.* More than half of IDA's annual commitments ($10.4 billion) went to countries in Sub-Saharan Africa, followed by South Asia (30 percent) and East Asia and Pacific (10 percent).

- *The International Finance Corporation (IFC), the private sector arm of the World Bank, approved $10.5 billion in long-term investments.* In FY 2015, IFC mobilized an additional $7.1 billion from other investors for development projects. More than a third of IFC projects, accounting for $4.7 billion in long-term investments, went to the world's poorest countries.

- *The Multilateral Investment Guarantee Agency (MIGA) provided $2.8 billion in guarantees for political risk insurance*. Of MIGA's FY 2015 projects, 43 percent were in the poorest countries, with 15 percent of new guarantees supporting fragile and conflict-affected countries.

- *For IBRD and IDA, public administration, law, and justice was the sector that received the largest commitment (19 percent), followed by health and other social services (16 percent) and transportation (12 percent).*

- The World Bank provided notable support in the following areas: providing up to $500 million to support reconstruction in Nepal after the earthquake; approving nearly $1.6 billion for Ukraine for policy, health, and infrastructure support; and providing $2.3 billion for regional integration projects in Sub-Saharan Africa.

<u>IDA Replenishment</u>: In 2015, World Bank management continued to implement IDA-17 policy commitments approved in December 2013. These include adopting a strategy on gender equality, targeting additional resources for fragile states that are on a path towards stability, and enhancing IDA's focus on climate resilience. The United States also co-chaired a working group on IDA's long-term vision and financial sustainability, which opened a dialogue on policy and financial measures to improve IDA's future effectiveness based on projected economic and development trends in IDA countries. Discussions included ways to smooth countries' graduation from IDA to IBRD.

<u>Key Institutional Reforms</u>: In 2015, in addition to carrying out its regular lending activities, the World Bank advanced several major policy and governance reviews and explored proposals to significantly increase its financing capacity.

- *Shareholding Review:* The World Bank launched a shareholding review in 2015. These periodic reviews provide opportunities to assess whether the World Bank has adequate resources to fulfill its mission and whether shareholding is distributed equitably among members. World Bank Governors approved a multi-year roadmap to implement the review that contains several key milestones. The first step is for shareholders to develop a formula to guide discussions on a possible redistribution of voting power in 2017. The formula will largely be based on both countries' economic contributions to the global economy and support for IDA. Concurrently, shareholders launched the World Bank's "forward look exercise," which aims to endorse a strategic vision for the World Bank's role over the next 15 years. This exercise is expected to conclude in fall 2016. Once shareholders reach a decision on the formula and "forward look," shareholders will launch discussions on the World Bank's capital position. The United States strongly support this roadmap, believing that these discussions will help make the World Bank even more representative of global realities.

- *IDA Financial Reform:* As part of the G-20 call for MDBs to optimize their balance sheets, World Bank management and shareholders have been discussing proposals that could leverage the equity that IDA has built up on its balance sheet. In 2015, IDA donors and World Bank management began a process of reviewing the potential financial and development implications of several possible options for leveraging IDA's equity, thereby creating significant new amounts of development finance. IDA donors are likely to decide on the proposals during the negotiations for IDA's 18^{th} replenishment (IDA-18), which are occurring in 2016.

- *Safeguards Review:* The World Bank is undergoing a multi-year review of its environmental and social safeguards to develop a strengthened policy framework. The review and update is scheduled to conclude in 2016. The U.S. objective is an up-to-date, integrated framework that improves the clarity, coherence, efficiency, and effectiveness of the World Bank's safeguards.

  The United States believes that the World Bank's safeguards policies are an integral part of its comparative advantage and add value beyond the financing that the World Bank provides. The safeguards are an essential tool for assuring sustainable development. By helping to avoid or mitigate environmental and social risks in World Bank-financed projects, the safeguards policies are a key component of borrower and World Bank risk management efforts, so as to help to maximize environmental and social outcomes. Historically, the World Bank has been a global leader in safeguards, and the current review should result in the establishment of a new and comprehensive institutional approach that recognizes safeguards as critical for advancing the World Bank's sustainable development goals and meeting developing countries' needs. The World Bank is proposing to expand its safeguards into several new, important substantive areas and is strengthening its approach to social assessments.

  In addition to updating its policies, the World Bank is working to improve the implementation of safeguards, especially in difficult areas such as resettlement. The World Bank is also focused on establishing sound implementation practices in the new substantive areas. These include strengthened monitoring of project implementation to address environmental and social issues, as well as implementation support and capacity building for borrowers.

- *Procurement Review:* The United States supported the conclusion of an extensive review of the World Bank's procurement policies in June 2015, and the updated procurement framework is now being implemented. The review assessed how the World Bank should modernize its procurement policies in light of an evolution in its lending portfolio, changes in global procurement practices, and development of country capacity to manage procurement processes. Improvements to the new procurement framework include enhanced methodologies for supporting value for money in procurement, a more robust complaints mechanism for bidders, greater engagement by World Bank staff across the entire contract cycle, and a commitment to strengthen the capacity of both borrowing countries and the World Bank's procurement staff. The United States will continue to engage with U.S. businesses, civil society organizations, and experts across the United States Government during implementation to help assure that the World Bank maintains high standards, safeguards its resources, and creates a level playing field for all bidders.

- *Program for Results (P4R):* In 2015, World Bank management completed an early review of its implementation of the "program for results" instrument (P4R), which links disbursements to achieving specific targets. The review was positive overall, indicating that the World Bank respected all of the conditions that the Board set when P4R was approved. Significantly, these conditions included a prohibition on using P4R for projects with potentially significant social and environmental risks. As a result of this positive review the Board recommended raising the cap on the percentage of World Bank annual commitments for which P4R could be used to 15 percent. The United States will continue to monitor implementation and the results of P4R going forward, including by seeking a more fulsome independent evaluation as the World Bank gains more experience using P4R.

  Gender Strategy: The Board approved an updated gender strategy in December 2015 that directs the World Bank to focus on increasing access to jobs and assets in order to close gaps in economic opportunity between men and women. The strategy introduces new methods for measuring the results of World Bank activities in supporting gender equality throughout the life of projects. The World Bank will also target more attention to capacity building for collecting and disseminating sex-disaggregated data to further enhance results monitoring.

  Global Infrastructure Facility (GIF): Inadequate infrastructure has long been recognized as a significant bottleneck to growth and development. In April 2015, the World Bank launched the GIF, a $100 million trust fund supported by China, Australia, Canada, Japan, Singapore, and the World Bank itself, to help countries design and execute infrastructure projects that can attract a mix of public and private financing. The GIF focuses on project prioritization and preparation in the complex early stages of the project life-cycle. It is expected that, in the future, the GIF will provide catalytic financing and credit enhancement instruments needed to crowd in private financing.

<u>2016 Priorities</u>: A key U.S. priority is negotiating the IDA-18 replenishment and leveraging it to advance key U.S. priorities within the 2030 Sustainable Development Agenda. These include: (1) enhancing IDA's effectiveness in fragile and conflict-affected states, supporting private

sector development and jobs, promoting opportunities for women and girls, and mobilizing domestic resources); (2) advancing the discussion on the proposals to leverage IDA's equity; (3) advocating for our strategic priorities, including climate resilience and crisis response; (4) pressing for a successful conclusion to the shareholding formula negotiations; (5) reaching consensus on a more effective and up-to-date environmental and social safeguards framework; and (6) urging adoption of a World Bank-wide evaluation policy to better support learning and accountability.

African Development Bank (AfDB)

Performance in 2015:

- *AfDB financing commitments totaled $8.0 billion.* Commitments from the AfDB's non-concessional window were $6.2 billion. Commitments from the concessional window, the African Development Fund (AfDF), totaled $1.8 billion.

- *Of the total AfDB non-concessional window commitments, sovereign loans accounted for $4.1 billion (66 percent) and private sector projects, investments, and guarantees accounted for $2.1 billion (34 percent).* New approvals continued to reflect the AfDB's selectivity in its choice of project sectors, with approximately half of the total projects addressing infrastructure (of which transportation is the dominant subsector, followed by energy, water supply and sanitation, and communications).

- *Distribution of total AfDB commitments by sub-region: Southern Africa (26 percent); East Africa (22 percent); North Africa (18 percent); West Africa (18 percent); and Central Africa (13 percent). Tanzania, Egypt, Cameroon, Angola, and Tunisia were the five largest recipients of AfDB approvals in 2015.*

- The AfDB provided notable support in the following areas: financing $800 million in energy projects, including supporting Power Africa projects across the continent; supporting key infrastructure projects that enhance regional trade, such as the Yaounde-Brazzaville transportation corridor between Cameroon and the Republic of Congo which also benefits Gabon, Equatorial Guinea, the Central African Republic, and the Democratic Republic of Congo; and financing governance reform and crisis response and recovery in fragile states, including continued assistance for post-Ebola recovery efforts.

AfDF Replenishment: In 2015, the AfDB advanced the reform commitments that the United States and other donors advocated for as part of the AfDF's thirteenth replenishment (AfDF-13) in September 2013. AfDF management continues to implement key reform commitments, including: (1) developing new concessional risk mitigation and credit enhancement instruments to catalyze private finance for infrastructure, (2) strengthening support for gender objectives through better use of gender-disaggregated data and indicators, and implementation of a revised gender framework that tracks gender outcomes, (3) improving the effectiveness of assistance to fragile states that demonstrate the political will to implement key reforms, and (4) strengthening the financial sustainability of the AfDF by changing concessional loan terms. The 2015 mid-term review of AfDF-13 indicated significant progress on these commitments, including gender mainstreaming across the AfDB as well as a new fragility strategy that resulted in enhanced financing to fragile states.

In 2015, the United States also participated in working group discussions about policy and financial innovations for the AfDF's fourteenth replenishment (AfDF-14), which will be negotiated in 2016.

Key Institutional Reforms: 2015 was marked by the election of a new AfDB President, former Nigerian Minister of Agriculture Akinwumi Adesina. The election was competitive and transparent, with eight candidates participating in a year-long process that included written position statements, a public forum with audience questions, oral statements to Governors, and live voting results. The United States was heavily engaged in promoting this process.

Adesina campaigned on a platform that included further enhancing the AfDB's work in key areas such as infrastructure and private sector development, and an emphasis on results-based performance. Since taking office, he has introduced new initiatives and reforms, including the New Deal on Energy in Africa, a high-level initiative that is partnering with the Power Africa, the private sector, and others to improve energy access on the continent.

In 2015, the United States also engaged with the AfDB on a number of core governance priorities, most notably reform of the AfDB's Independent Review Mechanism (IRM), which provides recourse to people adversely affected by projects. Another governance priority was an update of the AfDB's procurement framework that enhances the emphasis on value-for-money. Finally, we worked with AfDB management to develop exposure exchange agreements with the World Bank and the Inter-American Development Bank that have mitigated concentration risk in the AfDB's portfolio and increased its risk-adjusted capital adequacy ratios.

2016 Priorities: Key U.S. priorities for the AfDB include: (1) negotiating the AfDF-14 replenishment to build on the reforms achieved under AfDF-13; (2) collaborating with AfDB management on key institutional reforms such as staff compensation and results-based performance; (3) encouraging competitive and merit-based selection processes as President Adesina completes appointments for his new senior management team; (4) enhancing the strong AfDB-U.S. partnership on key priorities, such as Power Africa and support for fragile states; and (5) encouraging the AfDB to continue building its capacity to promote African private sector growth.

Asian Development Bank (AsDB)

Performance in 2015:

- *Total AsDB financing commitments were $16.6 billion. Commitments from AsDB's non-concessional window were $13.7 billion, of which $2.6 billion was for non-sovereign loans, guarantees, and investments. The Asian Development Fund (AsDF) committed $2.9 billion in concessional loans, grants, and technical assistance.*

- *Largest recipients of funds: India (16 percent), China (12 percent), Pakistan (11 percent), Indonesia (8 percent), Vietnam (8 percent), and Bangladesh (7 percent).*

- *The AsDB's 2015 commitments largely focused on infrastructure (63 percent), including energy (24 percent), water, transport, and information technology and communications. Other major sectors of support were education (15 percent), financial sector development (9 percent), and agriculture (7 percent).*

- The AsDB provided notable support in the following areas: $1.2 billion in grants to support Afghanistan's energy security; $215 million for Nepal earthquake relief, disaster risk reduction, and livelihood restoration; $600 million of loans to support power upgrades in Indonesia; and support to further improve the rural road network in India.

<u>AsDF Replenishment</u>: In 2011, donors approved a replenishment level of $12.4 billion for the AsDF's tenth replenishment (AsDF-11), which covers the four-year period from 2013-2016. While the overall size of the replenishment represented a 10 percent increase from AsDF-10, the U.S. contribution declined by 22 percent, reflecting a multi-year plan to reduce U.S. unmet commitments to the AsDF. Under AsDF-11, donors and the AsDB decided to focus efforts on inclusive growth that reduces poverty. AsDB management also agreed to changes to increase lending capacity, including hardening loan terms for wealthier AsDF countries.

AsDF-12 negotiations began in October 2015 and will conclude in May 2016. Areas of emphasis for the negotiations include updating financial policies following the merger of the AsDF's concessional lending resources with the AsDB's ordinary capital (see section on key institutional reforms below); increased attention to fragile and conflict-affected states, including strengthening analysis of the drivers of fragility; support for disaster risk reduction and response; regional integration; promotion of gender equality; and climate change adaptation and mitigation.

<u>Key Institutional Reforms</u>: In 2015, AsDB Governors approved the merger of the AsDB's concessional and non-concessional lending resources, effective from January 1, 2017. This major reform is historic and very promising. Merging all lending (whether concessional or non-concessional) into the AsDB's Ordinary Capital Resources increases the ability of the AsDB to leverage its equity. This, in turn, will allow the AsDB to boost its lending capacity from approximately $13 billion annually to $17 billion over the next decade, with no need for additional capital from shareholders. The merger is also expected to reduce the level of donor resources required for AsDF replenishments. Concessional assistance will be divided between the Ordinary Capital Resources window, which will provide concessional loans using internally-generated resources, and the AsDF window, which will provide grants. Donor contributions will fall since donors will only be required to provide grant resources to the AsDF window going forward. The United States and other donors successfully pressed for assurances that the increased lending capacity from the merger would primarily benefit the poorest countries in Asia. AsDB shareholders also received third-party external validation that the merger would not harm the AsDB's AAA credit rating or financial standing.

The AsDB also continued to implement reforms negotiated in 2009 as part of its general capital increase, including "Strategy 2020," its medium-term strategy that aims to improve institutional effectiveness. In addition, the United States emphasized sound implementation of proposed reforms to reduce the costs of the AsDB's pension and education benefits, and efforts to increase the competitiveness and transparency of selection of senior managers at the AsDB.

2016 Priorities: Key U.S. priorities for the AsDB include: (1) ensuring that the AsDB has the capacity to make effective use of the extra lending headroom that will result from the merger of concessional and non-concessional lending resources; (2) completing negotiations of the AsDF-12 replenishment; (3) reviewing the effectiveness of the AsDB's non-project lending instruments; (4) beginning discussions on the new corporate strategy, "Strategy 2030;" and (5) continuing efforts to improve the transparency and merit-based selection of senior management, including the election process for the AsDB president.

European Bank for Reconstruction and Development (EBRD)

Performance in 2015:

- *EBRD investments in 2015 reached $10.2 billion.*

- *Top recipients of investments were Turkey (20 percent), Ukraine (14 percent), Egypt (8 percent), Kazakhstan (8 percent), and Poland (7 percent).* The EBRD also continued to increase investments in the early (less advanced) transition countries (ETCs), such as Armenia, Georgia, and Moldova. Projects approved for the ETCs in 2015 accounted for more than 25 percent of the overall number of EBRD projects, with business volume at a record $1.5 billion for this group.

- *EBRD business volume in 2015 was concentrated in the following sectors: financial institutions (32 percent), energy (27 percent), corporate (22 percent), and infrastructure (19 percent).*

- The EBRD provided notable support in the following areas: $1.1 billion in approvals for Ukraine to support the government's reform efforts; significantly increased levels of assistance for Jordan, Egypt, Morocco, and Tunisia; and approval of temporary assistance for Greece to support recapitalization and reform of the banking sector, as well as privatization.

- 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 2015, the United States and other EBRD shareholders approved a Strategic and Capital Framework (SCF) for the EBRD for the 2016 – 2020 period. The SCF sets out a strategy for the EBRD to reinvigorate transition to market economies in its countries of operation, using existing capital resources. Consistent with priorities identified in the SCF, the EBRD Board of Directors approved a new "Green Economy Transition" approach, which aims for an increase in the level of environmental investments to 40 percent of overall EBRD investments by 2020. The EBRD also approved its first Strategy for the Promotion of Gender Equity, and will seek over the next five years to increase women's empowerment and equality of opportunity in the EBRD's countries of operation. The EBRD adopted modifications to its presidential election process to increase competitiveness and transparency. EBRD Governors also approved country of operation status for Egypt, and EBRD membership for Lebanon (as a potential recipient country) and China (as a non-recipient member).

2016 Priorities: Key U.S. priorities for the EBRD include: (1) conducting a successful and transparent presidential election process; (2) providing continued support to Ukraine; (3) increasing support for the key priorities of energy efficiency and climate finance, and for improved EBRD capability to foster energy policy reforms in its countries of operation; (4) enhancing support for refugee populations and host communities in Jordan and Turkey; (5) achieving effective implementation of EBRD gender and inclusion policies; and (6) strengthening the EBRD's results measurement and the independent evaluation function, including the EBRD's capacity to measure transition impact.

Inter-American Development Bank (IDB)

Performance in 2015:

- *The IDB committed $11.3 billion in loans and grants in 2015 to its 26 borrowing member countries in Latin American and the Caribbean.*

- *Top recipients of IDB lending in 2015 were Mexico (17 percent), Colombia (10 percent), Uruguay (8 percent), Argentina (7 percent), and Peru (6 percent).* Small and vulnerable borrowing countries received 47 percent of new loan approvals.

- *IDB lending was spread across many sectors, with the largest amounts going to social investment (22 percent), energy (13 percent), financial markets (13 percent), transportation (10 percent), and reform/modernization of the state (8 percent).*

- The IDB provided notable support in the following areas: approval of $200 million in new grants and disbursement of $187 million for critical projects in Haiti; engagement on diversifying energy supplies with Caribbean countries, especially those reliant on Petrocaribe; and $802 million in commitments for the Northern Triangle countries (El Salvador, Guatemala, and Honduras), coupled with advice for the governments on the design of reform programs to address the root causes of migration.

- *The Inter-American Investment Corporation (IIC), the private sector arm of the IDB Group, approved $346 million in loans and equity investments in 2015.* Slightly less than half of IIC projects went to the region's small and vulnerable countries. IIC business volume was concentrated in the following clients: large financial institutions (39 percent), large corporates (20 percent), small financial institutions (16 percent), and small and medium-sized enterprises (10 percent).

- *The Multilateral Investment Fund (MIF) committed $87 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, and public sector partners.*

Key Institutional Reforms: The IDB continues to make progress in implementing the commitments that the United States and other shareholders negotiated in conjunction with the IDB's ninth general capital increase. IDB management and the Board of Directors continue to work together to strengthen implementation, including through a periodic update of the IDB's Institutional Strategy and a policy review of the IDB's lending instruments. In 2015, President Luis Alberto Moreno was re-elected for a third and final term, and new election regulations approved by Governors in 2014 will apply to the next election, increasing transparency and limiting future presidents to two terms.

- *Private Sector Reform:* The newly consolidated Inter-American Investment Corporation (IIC) was launched on January 1, 2016. A new General Manager was recruited in a competitive and transparent process. The consolidation is intended to address many of the shortcomings of the previously disjointed approach to the private sector that spread private sector activities across four different windows. A major focus of the restructuring is to increase the development impact of private sector activities. The United States advocated for improved development effectiveness and greater operational efficiency for the new private sector entity, and will closely monitor the implementation of the IIC to achieve the goals.

- *Capital Adequacy:* Following on the IDB Governors' approval of a new capital adequacy mandate in October 2014 and reaffirming the goal of maintaining the IDB's AAA credit rating, new capital adequacy regulations were adopted in 2015 to define the means of achieving that goal. These include creating buffers for credit and market risk, as well as a buffer to provide capacity for countercyclical lending. To operationalize the new regulations, the IDB's Income Management Model was amended to put in place rules for the use and building of the buffers. The Income Management Model requires the IDB to manage the level of loan charges, the volume and composition of lending, amount of income transfers, and administrative expenses, so as to achieve the goals of the capital adequacy mandate and regulations. The United States also worked with IDB management to develop exposure exchange agreements with the World Bank and African Development Bank that have mitigated concentration risk in the IDB's portfolio and increased its risk-adjusted capital adequacy ratios.

- *Future of the Multilateral Investment Fund (MIF):* The current MIF agreement was extended by five years and now expires at the end of 2020. Due to a change in accounting procedures that brought the MIF's accounts into line with the rest of the IDB, MIF resources are now projected to last through the end of 2018. MIF donors are discussing the future of the MIF with the MIF's new General Manager, who was recruited during 2015 in a competitive and transparent process. The United States is pressing for an approach that will provide a more sustainable financing model for the

MIF, including an increased role in the financing of the MIF from regional borrowing members.

2016 Priorities: Key U.S. priorities for the IDB are: (1) successfully enhancing the IDB's private sector work through activities of the newly consolidated IIC, (2) seeking to optimize the use of the IDB's balance sheet and ensure sustainable support for concessional borrowers through a possible merger of the IDB's concessional arm (the Fund for Special Operations) with the IDB's ordinary capital, (3) working closely with IDB management to provide enhanced support for the Northern Triangle countries in carrying out their Plan for Prosperity; (4) deciding on the MIF's future financing and its role in relation to the IIC, and (5) exploring options for how the IDB might deliver grants to Haiti more effectively and efficiently.

International Fund for Agricultural Development (IFAD)

Performance in 2015:

- *Total IFAD approvals were $1.4 billion.* This includes $1.3 billion for new projects and additional financing for ongoing projects and $74 million for grants under IFAD's global, regional, and country grant program.

- *Regional distribution of IFAD commitments: Asia and the Pacific (41 percent); Eastern and Southern Africa (30 percent); Western and Central Africa (14 percent); Latin America and the Caribbean (9 percent); and Near East, North Africa, and Europe (6 percent).*

- *Top funding priorities included integrating rural poor into value chains (24 percent), rural enterprise development (18 percent), improved agricultural technologies (18 percent) and natural resource management (16 percent), followed by rural financial services (9 percent), climate adaptation activities (6 percent), support for producers' organizations (6 percent), and vocational skills development (2 percent).*

- IFAD provided notable support in the following areas: approval of a $62 million loan to Kenya to strengthen the climate resilience of smallholder farmers; a $49 million grant to Afghanistan to improve the food security and economic status of poor rural farmers, while improving the institutional capacities of the government and farmer organizations; and a grant to the International Center for Agricultural Research in Dry Areas to improve the production and productivity of rice-fallow systems in Bangladesh, India, and Nepal.

Key Institutional Reforms: IFAD's Executive Board approved a Sovereign Borrowing framework that sets out the parameters within which IFAD may borrow from sovereign states and state-supported institutions in the IFAD-10 replenishment period and beyond. IFAD also strengthened its internal risk management for financial operations by upgrading two major systems for enterprise resource planning, and conducted a review that broadly confirmed the validity of IFAD's current asset allocation. Finally, IFAD, along with member states, began a review to assess the appropriateness and relevance of IFAD's Executive Board structure, as well as the composition and length of replenishment cycles and the replenishment consultation process. (The United States is a member of the working group conducting this review.)

In its 2015 report, IFAD's Office of Independent Evaluation (IOE) highlighted improving trends as well as challenges. IFAD's performance has improved in a number of areas, including in rural poverty impact and gender equality. These improvements are a result of ongoing efforts to bolster IFAD's in-country presence and strengthen project supervision. However, the IOE has highlighted the need to make IFAD results more sustainable after project completion, and has underscored the need to bolster IFAD's operational efficiency and management of environmental and natural resource issues.

IFAD-10 Replenishment: U.S. priorities for the IFAD-10 replenishment, which runs from 2016-2018, include increasing IFAD support for climate resilience and adaptation activities; bolstering results in reducing malnutrition; improving performance in fragile, conflict-affected states; refining IFAD's approach to partnering with the private sector, and leveraging innovative financing tools to support smallholder agriculture. The United States will also focus on enhancing the sustainability of IFAD activities and the institution's ability to scale up successful projects.

2016 Priorities: Key U.S. priorities for IFAD include: (1) continuing IFAD's strong partnership on U.S. food security priorities, including gender, nutrition, and climate adaptation; (2) working with other member states to complete a review of IFAD's governance arrangements; and (3) preparing for a transparent and merit-based process to select IFAD's next president in 2017. The United States will also assess the results of IFAD's review of its country office decentralization effort, as well as the findings of the IOE's study on IFAD's performance-based allocation system.

North American Development Bank (NADB)

Performance in 2015:

- *NADB approved $260.5 million in financing in 2015*. This included $239 million in loans for eight projects, $20 million in grants for five projects under the Border Environment Infrastructure Fund, and $1 million in grants for two Community Assistance Program projects.

- *The sectoral breakdown of NADB's outstanding portfolio at the end of 2015 was wind energy (47 percent), solar energy (23 percent), water and wastewater (14 percent), air quality (8.4 percent), storm drainage (5 percent), and basic urban infrastructure (3 percent).*

- *The NADB's outstanding portfolio at the end of 2015 consisted of 51 percent (50 projects totaling $678 million) in Mexico and 49 percent (21 projects totaling $647 million) in the United States. The total outstanding portfolio at the end of 2015 was $1.3 billion.*

Key Institutional Reforms: In 2015, the NADB Board of Directors approved a resolution for a general capital increase to double the NADB's capital. This first-ever capital increase will preserve the NADB's current lending capacity and bolster its credit rating. Both the United States and Mexico committed to providing $225 million in paid-in capital over seven years, supplemented by $1.275 billion in callable capital from each country.

The NADB and the Border Environment Cooperation Commission (BECC) also continued to prepare for the merger of the two institutions, which the NADB/BECC Board of Directors recommended in a resolution passed in December 2014. The merger is in the final stages of negotiation, and the NADB and BECC have already begun implementing joint project development and technical assistance measures, fostering closer staff collaboration, and harmonizing human resources policies. The two institutions work together on common projects and anticipate functioning more efficiently as one institution, including by reducing administrative budgets.

To help ensure smooth implementation of the merger, the Board approved contract extensions for the NADB Managing Director and Deputy Managing Director, as well as the BECC General Manager, in exchange for performance commitments, including stronger emphasis on gender and nationality balance in recruitment of NADB staff. The NADB and BECC worked on combining and modernizing their procurement standards. They also began conducting the first impact studies of completed projects, beginning with a study of wastewater treatment projects in Baja California, Mexico.

2016 Priorities: Key U.S. priorities for NADB are: (1) continuing efforts to strengthen the NADB's capital position, including securing payments from both the United States and Mexico for the capital increase and seeking to leverage greater levels of co-financing for NADB-financed projects; (2) completing negotiations on the merger of the NADB and BECC and drafting the implementing guidelines and regulations for the NADB following the merger; (3) beginning recruitment for the Chief Environmental Officer position that will be created following the merger; and (4) developing a strategic plan for the NADB's core and emerging sectors in coming years, including continuing to build results measurement and evaluation capabilities.

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 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 the support will help spur growth and development that ultimately allows countries to graduate from IDA. The United States believes strongly 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 is an important priority for the IDA-18 replenishment negotiations that will occur in 2016.

The IDA graduation process is normally triggered when a country's per capita income exceeds the "operational" graduation threshold (currently $1,215) 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 a phasing out of IDA lending and phasing in of IBRD lending. Before graduation, there is typically an intermediate stage of varying length, known as "blend" status, during which a country can access both IDA and IBRD resources. There are currently 18 blend countries: Bolivia, Cabo Verde, Cameroon, Republic of Congo, Dominica, Grenada, Moldova, Mongolia, Nigeria, Pakistan, Papua New Guinea, Sri Lanka, St. Lucia, St. Vincent and the Grenadines, Timor-Leste, Uzbekistan, Vietnam, and Zimbabwe.

IDA's goal is to help 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. To date, 32 countries have graduated from IDA. Angola, Armenia, Bosnia and Herzegovina, and Georgia graduated in 2014. India also graduated in 2014, but since there is a constraint on its additional access to IBRD lending (as it has already reached its sustainable borrower limit), India remains eligible for a limited amount of transitional assistance from IDA during IDA-17 to avoid a precipitous drop in development resources.

During IDA-17, IDA management formed a graduation task force that will evaluate the following countries' readiness and help the countries' authorities prepare for graduation: Bolivia, Moldova, Mongolia, Nigeria, Pakistan, Papua New Guinea, Sri Lanka, Timor-Leste, and Uzbekistan. Sri Lanka and Vietnam are currently expected to graduate, and transition assistance for India will likely cease, at the beginning of IDA-18 in 2017.