TREASURY INTERNATIONAL PROGRAMS

JUSTIFICATION FOR APPROPRIATIONS

FY2007 BUDGET REQUEST

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TABLE OF CONTENTS

Boxes

Figures

Tables

DEPARTMENT OF THE TREASURY
WASHINGTON

"To overcome dangers in our world, we must also take the offensive by encouraging economic progress, and fighting disease, and spreading hope in hopeless lands. Isolationism would not only tie our hands in fighting enemies, it would keep us from helping our friends in desperate need. We show compassion abroad because Americans believe in the God-given dignity and worth of a villager with HIV/AIDS, or an infant with malaria, or a refugee fleeing genocide, or a young girl sold into slavery. We also show compassion abroad because regions overwhelmed by poverty, corruption, and despair are sources of terrorism, and organized crime, and human trafficking, and the drug trade."

— President George W. Bush, January 31, 2006

A major goal of U.S. international economic policy is to increase economic growth and stability around the world. The multilateral development banks, debt restructuring programs, and Treasury's technical assistance play key roles in the effort to increase global economic growth and reduce poverty, which is closely and invariably linked to U.S. foreign policy objectives of sustaining peace, promoting security, and combatting terrorism.

Under President Bush's leadership, the Administration has embarked on the most ambitious development agenda since the Marshall Plan. The new development agenda includes the Millennium Challenge Account, the President's Emergency Plan for AIDS Relief, an ambitious debt cancellation initiative, and funding for the international financial institutions that is linked to reforms and measurable performance.

The United States has nearly doubled overall development assistance, while at the same time transforming the development agenda to get economic development right and use aid more effectively. The Bush Administration has pursued an aggressive reform agenda in the multilateral development banks to deliver measurable results, to break the lend-and-forgive cycle by increasing grants to the poorest countries, to allocate funds based on countries' performance and commitment to pro-growth policies, and to increase transparency, improve governance, and combat corruption.

In the last several years, the United States has taken unprecedented steps to ensure that the burden of debt does not leave the poorest and most debt vulnerable countries mired in poverty. The United States, working with the other G-8 countries, secured a landmark multilateral debt cancellation and grants initiative in the World Bank, African Development Bank, and International Monetary Fund (IMF) to end the destabilizing lend-and-forgive cycle of development assistance to the poorest countries and free up funds for more effective growth and poverty reduction programs. As Treasury Secretary John Snow stated, "President Bush's commitment to lift the crushing debt burden on the world's poorest countries has been achieved. This is an achievement of historic proportions."

I am pleased to present the FY2007 Justification for Appropriations of Treasury International Programs. In the past year, Treasury International Affairs has worked hard to advance the President's international policy agenda. Among other achievements, Treasury:

- brokered the historic multilateral debt relief initiative (MDRI);
- initiated, reinforced, and extended key policy reforms in the multilateral development banks to make assistance more effective and deliver results;
- achieved an unprecedented level of debt relief in the Paris Club for Iraq;
- devised an innovative debt reduction and debt buyback treatment for Nigeria; and
- provided Treasury technical advisors on 72 individual projects in 49 countries to promote economic policy reforms and combat corruption, money-laundering, and the financing of terrorism.

We must continue to build on these successes. Your continued support for our collective efforts will have a concrete and lasting impact on the ability of the poorest countries to increase economic growth and reduce poverty, which underpins the overarching goals of economic stability, security, and peace.

I ask for Congress's support for the President's FY2007 request of $1.535 billion for Treasury International Programs, which seeks to:

- provide the resources and expertise needed to achieve the above goals over the next year;
- lock in hard-won reforms at the multilateral development banks to reduce corruption, increase effectiveness, and ensure accountability;
- incentivize further institutional reforms to ensure that taxpayer dollars are well spent; and
- relieve the crushing burden of unsustainable debt for countries with sound, pro-growth economic policies.

We have developed a new format for our FY2007 Justification for Appropriations. I hope you will find it helpful. If you would like any additional information, we, of course, stand ready to provide it.

Timothy D. Adams
Under Secretary for International Affairs

(Table 1) Summary of Appropriations and Requests Treasury International Programs

FY2005-FY2007 ($ millions)

	FY2005	FY2006		FY2007	
	Appropriations	Total Request	Appropria-tions [1]	Annual Commit-ments	Total Request
Multilateral Development Banks (MDBs):					
World Bank Group					
IBRD	0.0	0.0	0.0	0.0	0.0
IDA	843.2	950.0	940.5	950.0	950.0
MIGA	0.0	1.7	1.3	0.0	0.0
IFC	0.0	0.0	0.0	0.0	0.0
Global Environment Facility	106.6	107.5	79.2	56.3	56.3[3]
Inter-American Development Bank					
IDB	0.0	0.0	0.0	0.0	0.0
IDB/FSO	0.0	0.0	0.0	0.0	0.0
IIC	0.0	1.7	1.7	0.0	0.0
MIF	10.9	1.7	1.7	25.0	25.0
Asian Development Bank					
AsDB	0.0	0.0	0.0	23.8	23.8[3]
AsDF	99.2	115.3	99.0	115.3	115.3
African Development Bank					
AfDB	4.1	5.6	3.6	5.0	5.0
AfDF	105.2	135.7	134.3	135.7	135.7
European Bank for Reconstruction and Development	35.1	1.0	1.0	0.0	0.0
North American Development Bank	0.0	0.0	0.0	0.0	0.0
Int'l Fund for Agricultural Development	14.9	15.0	14.9	18.0	18.0
Total MDBs	1,219.2	1,335.3	1,277.2	1,329.0	1,329.0
Debt Restructuring:					
HIPC TOTAL, of which:	79.4		44.6[2]		
Bilateral Debt Reduction	79.4				
HIPC Trust Fund	0.0	99.8			182.8
Tropical Forest Conservation Act (TFCA)	19.8		19.8		
Total Debt Restructuring	99.2	99.8[2]	64.4		182.8[2]
Other Accounts:					
Technical Assistance	18.8	20.0	19.8		23.7
TOTAL TREASURY INTERNATIONAL ACCOUNTS	**1337.2**	**1,455.1**	**1,361.4**		**1,535.5**

Totals may not add due to rounding.

[1]Includes an across the board rescission of 1.0% (.01) applied to each line item, as required by P.L. 109-148, 12/30/05.

[2]The amounts allocated to each category of debt restructuring are determined according to relative program urgency and need.

[3]While the GEF and the AsDB combined FY2007 request is $80,000,000, the balance of funding between these two institutions will be decided after the conclusion of the GEF-4 replenishment negotiations.

(Table 2) Summary of Arrears
Treasury International Programs
FY2000-FY2006
($ millions)

	ARREARS						
	end-FY2000	end-FY2001	end-FY2002	end-FY2003	end-FY2004	end-FY2005	end-FY2006
Multilateral Development Banks (MDBs)							
International Bank for Reconstruction and Development							
International Development Association	32.1	62.3	73.0	78.5	120.7	327.5	337.0
Multilateral Investment Guarantee Agency	6.0	6.0	10.9	9.3	8.2	8.2	6.9
International Finance Corporation							
Global Environment Facility	204.2	203.9	210.9	171.6	140.7	141.5	169.8
Inter-American Development Bank							
IDB Fund for Special Operations							
Inter-American Investment Corporation	9.0	9.1	16.1	22.8	47.8	47.8	46.1
Multilateral Investment Fund	98.8	88.8	88.8	64.3	39.5	28.6	26.9
Asian Development Bank							
Asian Development Fund	100.0	128.2	133.2	138.9	98.3	102.1	118.4
African Development Bank	1.0	0.0	0.0	0.0	0.1	0.6	2.0
African Development Fund		0.2	0.2	10.8	16.8	29.6	31.0
European Bank for Reconstruction and Development				0.2	0.4	0.7	*
North American Development Bank							
International Fund for Agricultural Development		0.0	0.0	0.1	0.2	0.3	0.5
TOTAL BUDGET AUTHORITY	**451.1**	**498.5**	**533.1**	**496.7**	**472.7**	**687.0**	**738.6**

* *Less than $11,000 • Totals may not add due to rounding.*

Treasury International Assistance Programs: FY2007 Request

Summary of Accounts

International Development Association (IDA): $950.0 million request for the second of three payments to the fourteenth replenishment of IDA (IDA-14). U.S. leadership secured a number of key objectives including a debt sustainability framework that will significantly increase grant financing, an expanded and robust results measurement system, improved transparency and anti-corruption measures, including a commitment to conduct an independent assessment of IDA's internal controls framework.

Global Environment Facility (GEF): $56.25 million request for the initial contribution to the fourth replenishment of the GEF (GEF-4). The replenishment negotiations are ongoing, and there is not yet agreement on the policy reforms needed to improve project quality, portfolio management, resource allocations, transparency, anti-corruption efforts, and the overall effectiveness of the GEF. The level of the request is an estimate based on progress in the negotiations to date and is contingent upon eventual satisfactory agreement on these outstanding policy issues. The final number for this initial contribution to GEF-4 could be higher or lower.

Asian Development Bank (AsDB): $23.75 million request for a new regional environment program at the AsDB to achieve the aims of the Asia-Pacific Partnership on Clean Development and the Climate. The amount of this request is contingent upon the eventual outcome of the GEF-4 replenishment negotiations, where changes in the anticipated agreement on the outstanding policy issues than is currently anticipated could affect the eventual balance of funding between the two requests (GEF and AsDB).

Asian Development Fund (AsDF): $115.25 million request for the second of four payments to the eighth replenishment of the AsDF (AsDF-9). The United States secured a number of important policy reforms, including creation of a grants window, increased weight on a country's governance and economic performance in the allocation of resources, new offices to strengthen internal oversight and implement a results measurement system, and increased transparency and anti-corruption measures.

African Development Bank (AfDB): $5.02 million request for the eighth of eight payments to the AfDB's fifth general capital increase (GCI-5). The U.S. payment leverages other donors' commitments under GCI-5 of more than $900 million per year.

African Development Fund (AfDF): $135.7 million request for the second of three payments to the tenth replenishment of the AfDF (AfDF-10). U.S. leadership secured key objectives, including a substantial increase in grant funding under a debt sustainability framework, strengthened measurable results system to improve effectiveness, improved transparency, increased activities to fight corruption, and greater support to post-conflict countries.

Multilateral Investment Fund (MIF): $25.0 million request for the first of six payments to the first replenishment of the MIF (MIF-II). The United States achieved its key objectives in the replenishment negotiations including a strengthened commitment to measurable results, increasing efficiency, maintaining the focus on grants, allocation of resources to maximize innovation, and reforming the Inter-American Development Bank procurement guidelines.

International Fund for Agricultural Development (IFAD): $18.0 million request for the first of three payments to the seventh replenishment of IFAD (IFAD-7). The United States achieved its key objectives in the replenishment negotiations, including a time-bound and measurable plan to increase IFAD's effectiveness, improved implementation of the performance-based allocation system, a debt sustainability framework that will result in an increase in grant funding, and increased transparency and anti-corruption measures.

Debt Restructuring: $182.8 million request supports bilateral Heavily Indebted Poor Countries (HIPC) and poorest country debt reduction programs and the Tropical Forest Conservation Act (TFCA) debt reduction program. Under the enhanced HIPC initiative, at least $175 million of the requested funding is required to complete U.S. bilateral debt reduction for the Democratic Republic of the Congo (DRC) in FY2007, when the DRC is expected to receive final stock of debt reduction. The remainder of the request will be used for TFCA debt programs or for other potential HIPC-related debt reduction costs (for countries such as Liberia and Sudan).

Treasury International Affairs Technical Assistance Programs: $23.7 million request supports programs that provide financial advisors to countries seeking assistance in implementing significant economic reforms, focusing on the functional areas of budget, taxation, government debt, financial institutions, and financial crimes law enforcement. It is estimated that $5.47 million (23%) of the request will fund resident and short-term advisor projects with countries combatting terrorist finance activity. A large portion of the request (32%) will be used for assistance programs in sub-Saharan Africa, supporting economic and financial reforms in countries receiving HIPC debt relief. Over a quarter of the request (25.7%) will be used to carry out projects in the Greater Middle East, including Afghanistan, Iraq, and Jordan.

FY2007 Authorization Requests

Enterprise for the Americas Multilateral Investment Fund (MIF-II)

For FY2007, the Administration is requesting authorization for the United States contribution of $150,000,000 to the first replenishment of the resources of the Enterprise for the Americas Multilateral Investment Fund (MIF-II), subject to obtaining the necessary appropriations.

Heavily Indebted Poor Countries (HIPC) Initiative

The Administration is also requesting extensions of two existing authorities related to the Heavily Indebted Poor Countries (HIPC) initiative which both expire at the end of FY 2006: (1) authority to engage in bilateral HIPC debt reduction; and (2) authority to make contributions to the HIPC Trust Fund. HIPC debt reduction authority is contained in Section 501(i) of title V of H.R. 3425 as enacted into law by section 1000(a)(5) of Public Law 106-113, as amended. HIPC Trust Fund authority is contained in Section 801(b)(1)(ii) of Public Law 106-429, as amended.

Support for the Multilateral Development Banks

"People around the world deserve to live free of poverty and hunger, and real prosperity is the work of many years. To spread opportunity to every corner of the world, we must build on our current efforts."

— **President George W. Bush • September 20, 2004**

President Bush has charted a new course for international development. His groundbreaking approach, which gained international consensus in Monterrey in 2002 by developing and developed counties alike, focuses on results achieved, not on resources spent. It recognizes that developing countries must take primary responsibility for their development by encouraging the sources that produce wealth: economic freedom, political liberty, the rule of law, and human rights. Development assistance plays an important role, particularly in the fight against hunger and disease and in reinforcing political and economic reform. The new course affirms private sector activity as the primary engine of poverty-reducing growth, and accordingly supports reforms and policies that promote trade and investment, which stimulates real and lasting growth and thus provides the vast majority of resources for development.

(Table 3) Over the Next 10 Years Growth is Expected to Rise and Poverty Fall Around the World

(percent unless overwise indicated)

			Population Living on Less than $1 a Day					
	Average Annual Growth Rate, 2005-15		Headcount Index			Number of People (millions)		
Region	Per capita GDP	GDP	1990	2001	2015	1990	2001	2015
East Asia and Pacific	5.5	6.3	29.6	14.9	0.9	472	271	19
China	6.0	6.7	33.0	16.6	1.2	375	212	16
Europe and Central Asia	3.6	3.7	0.5	3.6	0.4	2	17	2
Latin America and the Caribbean	2.4	3.6	11.3	9.5	6.9	49	50	43
Middle East and North Africa	2.4	4.2	2.3	2.4	0.9	6	7	4
South Asia	4.2	5.6	41.3	31.3	12.8	462	431	216
Sub-Saharan Africa	1.7	3.6	44.6	46.4	38.4	227	313	340
Average/Total	**3.6**	**4.8**	**27.9**	**21.1**	**10.2**	**1,219**	**1,089**	**622**
Excluding China	2.8	4.2	26.1	22.5	12.9	844	877	606

Source: World Bank Staff Estimates; Global Monitoring Report 2005

Economic Growth, Led by the Private Sector, is the Key to Reducing Poverty

Creating jobs and reducing poverty throughout the world are essential to promoting stability and security. Growth in developing countries has improved in recent years, averaging 6.7% in 2004, the highest level in decades. If current growth projections hold, the worldwide extreme poverty headcount index will fall from 28% in 1990 to 10% in 2015, exceeding the goal set out in the 2000 Millennium Declaration.

There remain, however, many challenges to improving the standards of living in the developing world. The AIDS epidemic continues to have a devastating impact in many developing countries, particularly in Africa where life expectancy rates have actually dropped. Almost 11 million children under the age of five die every year, the vast majority of whom live in developing countries. Two billion people lack adequate sanitation or have no electricity. And a billion do not have safe water to drink.

Growth prospects are uneven across and within regions. These disparities are largely explained by differences in governments' commitment to pro-growth policies and in the institutions responsible for implementing them. While economic growth holds the key to reducing poverty, experience shows that it is considerably more difficult to sustain growth than it is merely to initiate it. The power of the private sector must be unleashed, particularly in sub-Saharan Africa, to realize the sustained growth necessary for poverty reduction.

As President Bush stated in his September 14, 2005 address to the United Nations, eliminating trade barriers is the key to overcoming poverty in the world's poorest nations. Successful completion of the WTO Doha negotiation round is critical to the reduction of poverty and the ability of developing countries to grow their economies and provide the private and public resources critical to their development. The elimination of barriers to trade in goods and services, including financial services, could lift millions of people out of poverty over the next 15 years.

Getting Economic Development Right — Delivering Results

From the outset, the Bush Administration has pursued an aggressive reform agenda in the multilateral development banks (MDBs) to get economic development right by:

- insisting that allocation of resources be linked to measurable results;
- increasing grants to the poorest and most debt vulnerable countries;
- channeling more funds to countries with pro-growth policies; and
- increasing transparency, improving governance, and combatting corruption.

Under the U.S. reform agenda, a key strategy is to encourage and assist countries to remove impediments to economic growth, and a key principle is to insist on measurable results in all programs. To ensure that assistance from the MDBs is more effective, the United States has led the effort to focus resources on countries that institute policies to promote economic growth and adopt clear measurable goals and targets for

Box 1 • Multilateral Debt Relief Initiative

The United States, working with the UK and other G-8 countries, secured a landmark debt relief initiative for the world's poorest and most heavily indebted countries in 2005. Specifically, it will provide 100% cancellation of debt obligations owed to the World Bank (IDA), the African Development Fund (AfDF), and the International Monetary Fund (IMF) by eligible countries in the Heavily Indebted Poor Countries (HIPC) initiative. Over time, 42 countries are projected to receive up to $60 billion in debt relief as a result of this initiative. This action will free up funds for more effective and measurable economic growth and poverty reduction programs. The removal of unsustainable debt combined with additional development resources – largely provided on grant terms – will deliver significant support for reaching the Millennium Development Goals (MDGs). The Multilateral Debt Relief Initiative (MDRI) will be financed over time by contributions to IDA and the AfDF. For FY2007, the United States will accelerate encashment of its already pledged IDA-14 and AfDF-10 replenishment contributions, which will generate a corresponding credit equal to our share of the financing for the MDRI. The full funding of the President's FY2007 requests for IDA and AfDF is critical to implementation of this historic initiative.

the assistance that they receive. In addition, most of the MDBs are establishing results-oriented management systems, and improving accountability and transparency to help ensure concrete and measurable results.

More Grant Assistance

In 2001, President Bush announced his new grants initiative, calling on the MDBs to provide 50% of their assistance to the poorest countries in the form of grants. He explained that he aimed not only to "drop the debt" of poor countries but also to "stop the debt." Since then, in the context of avoiding a future build-up of unsustainable debt burdens, the United States has led the effort to assist the poorest countries to make more productive investments without becoming more indebted by significantly increasing the share of MDB assistance provided by grants rather than loans.

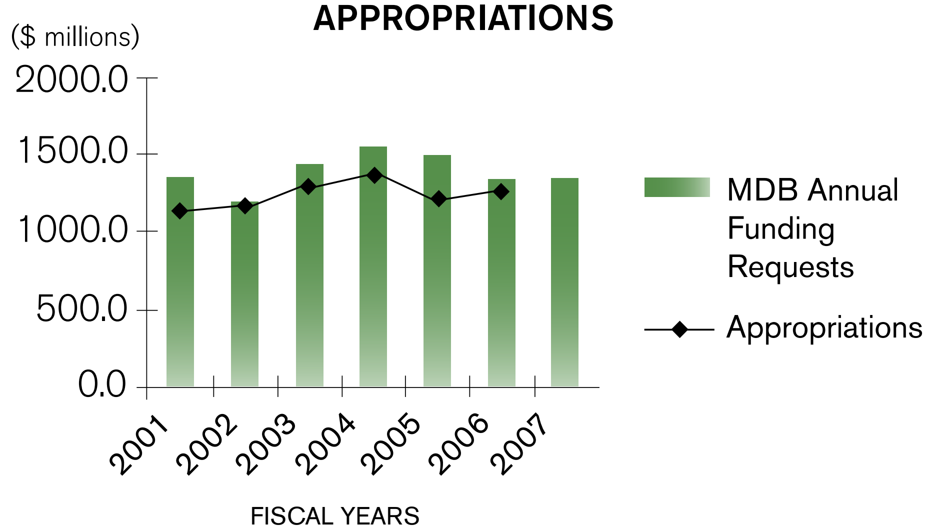
The shift to grants will help to break the lend-and-forgive cycle of assistance. However, there also needs to be a cleaning of the balance sheets so that future generations in the poorest countries can work to achieve higher economic growth and reduce poverty without the heavy burden of unsustainable debt. To achieve this objective, the President proposed last year a complete write-off of all World Bank, African Development Bank and International Monetary Fund concessional debt to qualifying Heavily Indebted Poor countries (HIPCs). In June 2005, the United States brokered an historic deal with the UK and other G-8 countries for a comprehensive debt cancellation package for the poorest countries.

The FY2007 Request: Support for Continuing Reform

The multilateral development banks (MDBs) play a key role in the effort to assist countries in achieving the economic growth necessary for reducing poverty, which is closely and invariably linked to U.S. foreign policy objectives of sustaining peace, promoting security, and combatting terrorism. To help achieve these goals, the Administration requests $1.329 billion for FY2007 to fund scheduled annual commitments to the MDBs.

The MDBs provide support for key U.S. foreign policy priorities, such as reconstruction in Iraq and Afghanistan; support to prevent and contain avian flu; disaster assistance following the devastating earthquake in Pakistan and the tsunami in South Asia; assisting post-conflict and fragile states in their efforts to keep the peace and revitalize their economies; and to fight HIV/AIDS.

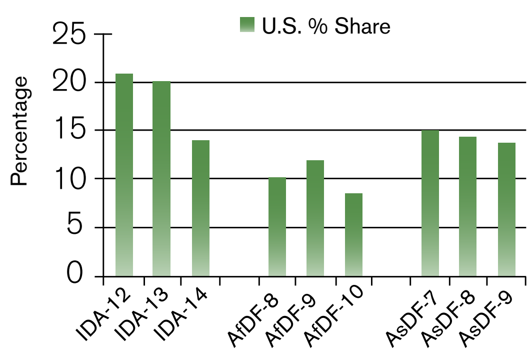
MDB ANNUAL FUNDING REQUESTS AND APPROPRIATIONS



The FY2007 total request for all of the MDBs of $1.329 billion is slightly lower than last year's request of $1.335 billion, reflecting the United States ability to secure agreement on serious reforms without major funding increases. In fact, the United States has been successful in maintaining the reform momentum while reducing its share of recent replenishments.

The United States still remains the largest cumulative contributor to the MDBs, giving the U.S. sizeable influence in the institutions and a significant role in shaping the policies of the institutions. In most of the institutions, the voting share of the U.S. is higher than that of any other country.

DECLINING U.S. SHARE IN REPLENISHMENTS



U.S. participation leverages a large volume of resources — over $50 billion — in MDB assistance in 2005. For each dollar that the United States contributed, over $30 of assistance was mobilized for increasing growth and reducing poverty around the world. However, volume is not enough; improving the quality of assistance is es-

(Table 4)

MDB Voting Shares (%)

Institution	IBRD	IDA	IFC	MIGA	IDB	FSO	IIC	MIF	AfDB	AfDF[1]	AsDB	AsDF[2]	EBRD	IFAD	GEF
Canada	2.78	2.83	3.39	2.56	4.00	4.00	-	1.29	3.72	4.14	4.53	4.66	3.45	2.66	4.22
France	4.30	4.19	5.04	3.94	1.90	1.90	3.07	-	3.72	4.98	2.19	4.41	8.65	3.03	7.99
Germany	4.49	6.67	5.36	4.28	1.90	1.90	1.42	-	4.08	4.84	3.80	5.78	8.65	4.08	12.98
Italy	2.78	2.73	3.39	2.44	1.90	1.90	3.07	2.65	2.40	3.15	1.77	3.90	8.65	2.52	5.71
Japan	7.86	10.40	5.87	4.30	5.00	5.00	3.53	34.80	5.41	6.83	12.90	35.00	8.65	4.26	18.83
UK	4.30	5.08	5.04	4.11	0.96	0.96	-	-	1.68	2.39	1.96	6.00	8.65	2.03	7.03
US	16.39	13.44	23.65	14.95	30.01	30.01	25.00	32.10	6.53	6.26	12.90	13.70	10.15	8.88	18.20
Total G7	**42.9%**	**45.3%**	**51.7%**	**36.6%**	**45.7%**	**45.7%**	**36.1%**	**70.8%**	**27.5%**	**32.6%**	**40.1%**	**73.5%**	**56.9%**	**27.5%**	**75.0%**

[1]AfDF donor countries have 50% of fund voting power, while AfDB has the other 50%. Cumulative contribution share of donor countries is approximately double the voting share.

[2]AsDF voting shares represent burden share %.

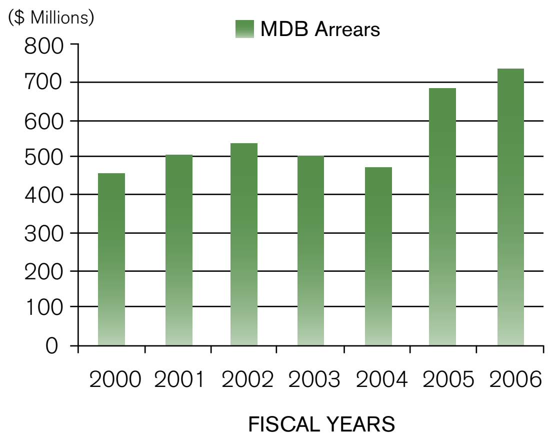
Box 2 • U.S. MDB Reform Agenda

- ***Making assistance effective*** through managing for results, supporting good performers, and improving debt sustainability and increasing grants.
- ***Private sector-led economic growth and trade*** through promotion of small business, building good investment climates, liberalizing trade, and investing in infrastructure.
- ***Good governance, increasing transparency, and fighting corruption.***
- ***Supporting U.S. foreign policy objectives*** through responding to global challenges.

sential. The United States must continue and build on its current efforts to deliver results on its MDB reform agenda (See Box 2).

It is vitally important to fully fund the FY2007 request for MDB scheduled annual commitments so that U.S. arrears to the MDBs do not continue to rise; total arrears currently stand at $739 million, the highest level since 1997. Ultimately, rising arrears undermine U.S. leadership in the institutions and support for its reform agenda.

U.S. ARREARS TO THE MDBs



Making Assistance Effective

To ensure that assistance is effective, the United States has led the effort to focus resources on countries that institute policies to promote economic growth and to adopt clear, measurable goals and targets for the assistance that they receive. Most of the MDBs are establishing results-driven management systems, relieving unsustainable debt burdens, increasing the amount of assistance provided as grants, and improving accountability and transparency — all to help ensure concrete development outcomes.

Managing for results

Managing for results will increase the effectiveness of MDB operations because what gets measured gets done. The United States has been a leader in pressing all of the MDBs to establish results-based management systems, emphasizing measurement of impacts and outcomes, and reporting results on a project, country, and institutional basis. The MDBs have made considerable progress in their efforts, but such efforts must be broadened and deepened, particularly at the institutional level, including evaluating staff and managers on project results rather than on volume.

- Due to strong U.S. leadership in the IDA-14 replenishment negotiations, donors agreed on a significantly expanded IDA results measurement framework, which will help improve the effectiveness and accountability of IDA's development assistance. The results framework includes:
  - fourteen country outcome indicators;
  - output indicators measuring IDA's contribution in the health, education, water supply, and transportation sectors across all IDA countries;

- country-level institutional indicators — including results-oriented Country Assistance Strategies; and
- project-level indicators that will monitor the percentage of projects with satisfactory outcomes.

IDA launched a public interactive website on July 1, 2005, to publish progress of the Results Measurement System.

- On an institutional level, the World Bank is developing a system to measure Key Performance Indicators in each Vice Presidential unit. Once the system is implemented, budget allocations will be made on the basis of performance. However, work is still needed on aligning staff incentives and project outcomes — rather than tying staff compensation/performance to volume of project lending.
- The AfDF now requires results-based Country Strategy Papers for all AfDF countries, according to guidelines which the United States had a large role in shaping. As part of the AfDF-10 replenishment, every project and country strategy will have a results framework. The AfDB has developed a set of external performance indicators to measure the Bank's contribution toward poverty reduction objectives at the country level. It has rolled out a pilot of its Balanced Scorecard of 6 strategic themes and 35 performance indicators to measure institutional performance.
- The AsDB launched a comprehensive results measurement plan following the 2004 AsDF-9 replenishment negotiations to improve the evaluation of institutional and staff performance and country operations. At the country level, new country strategy programs (CSPs) will now be results-based, which means more monitoring and evaluation processes and dissemination of best practices and lessons learned. The AsDB approved a new staff incentive system which will attract and retain high-caliber employees and ensure that rewards are allocated for achieving development outcomes, instead of for the quantity of loans approved. The challenge now is implementation, but the blueprint is in place.

Box 3 • Indicators Introduced under IDA-14's Results Measurement System

Outcome indicators	Indicators of IDA Performance, Fiscal 2005-7
• Share of population below $1 a day poverty line	*Project Level*
• Under-five child mortality rate	• Share of projects with satisfactory outcome ratings
• HIV prevalence rate of pregnant women age 15-24	• Share of projects with satisfactory quality at entry ratings
• Share of births attended by skilled health personnel	• Share of first IDA Project Supervision Reports with satisfactory baseline data on expected outcomes for projects initiated after July 2003
• Ratio of girls to boys in primary and secondary education	• Share of IDA Implementation Completion Reports with satisfactory data on project outcomes
• Primary school completion rate	*Country Level*
• Share of population with sustainable access to an improved water source	• Number of results-based country assistance strategies prepared during IDA14
• Fixed and mobile telephone lines (per 1,000 people)	*Outputs*
• Formal cost of business startup (percentage of per capita gross national income)	• Health
• Time required for business startup (days)	• Education
• Public financial management (number of benchmarks met)	• Water Supply
• GDP per capita (annual growth rate)	• Transportation
• Share of rural population with access to an all-season road	
• Share of households with electricity	

Box 4 • Measuring Results in Projects

The MDB's design and specification of project-level results measurement indicators have improved. The institutions have proven that results measurement is possible even in adverse circumstances. For example, the World Bank's multisector **Infrastructure Development Project** in **Sierra Leone** makes excellent use of development indicators to lay out a coherent development theory for the project. The project's goals are to improve the country's basic infrastructure: roads, the principal airport, and cargo port. The project specifies an overall performance objective for each of these goals, and then specifies the outcomes necessary to accomplish these objectives, including interim targets. These indicators provide important tools for project management and evaluation.

The MDBs are improving their ability to measure outcomes in the social sectors. The AfDB's $37 million project to support **Health Care Development** in two regions of **Burkina Faso** provides output and outcome indicators, with baseline data and interim targets, for a range of measures of public health.

The MDBs continue to face their greatest challenges in measuring the effectiveness of adjustment lending, in lending to support changes in institutions, and in using the indicators effectively for management and evaluation purposes. There is widespread understanding within the MDBs that meeting these challenges is critical to their institutional effectiveness. The Treasury Department continues to have an active dialogue with the institutions on how well they are measuring results on the project level and how much remains to be done.

Supporting Good Performers

Assistance is more effective when it is provided to countries that implement pro-growth policies and practice good governance. A World Bank evaluation report found that countries with improved policies over the period 1999-2003 grew at more than twice the rate of countries whose policies did not improve. Increasingly, assistance follows good policies in the MDBs through performance-based allocation systems that allocate greater resources to poor countries with better policies and institutions.

With strong and consistent U.S. pressure, all of the MDB concessional loan windows have put in place performance-based allocation systems that provide more funds to countries which rank higher on the country policy and institutional assessment (CPIA). Because of the importance of supporting countries that demonstrate commitment to good policies, the weight given governance is high and has even been increased recently in the AsDF.

- Today, the best policy performers in IDA will receive almost seven times more resources per capita than the poorest performers. For every $1 per capita of assistance to the median IDA performer in 1993-1995, about $1.20 went to the best performers and $.85 to the poorest performers. By 1999-2001, the spread had widened, with $1.77 per capita going to the best performers and $0.57 to the poorest performers. IDA's strategy for 2006 envisions an even wider spread, with $1.75 per capita going to the best performers and $0.38 to the poorest performers.
- As part of the AfDF-10 replenishment agreement, the AfDF committed to further refine its performance-based allocation framework by improving the differentiation between good and poor performers in per capita allocation of AfDF resources. Governance is now given greater weight in a country's overall rating, better performing countries with good governance receive a correspondingly larger share of resources, and post-conflict countries receive an additional allocation in support of their recovery.

- In the IFAD-7 replenishment agreement, IFAD committed to strengthen the integrity of its performance-based allocation system by removing the fixed regional allocations and allocating resources across the lending program as a whole, based on performance. IFAD will improve the allocation formula, using more appropriate variables such as rural population.
- In 2005, the GEF finally agreed on a performance-based allocation system, as called for in the 2002 GEF-3 agreement, to come into effect in July 2006, the beginning of GEF-4. However, only half of the resources will be allocated on the basis of performance; the weights on performance and governance are considerably less than in the other MDBs; and there is not yet a consensus in ongoing GEF-4 replenishment negotiations on extending the system across the GEF.

(Table 5)

Policy and Poverty Selectivity of Official Development Assistance Net of Emergency Aid

Flow	Policy selectivity 1999	Policy selectivity 2003	Poverty selectivity 1999	Poverty selectivity 2003
Total aid	1.57	1.77	-0.34	-0.55
Bilateral aid	1.15	1.04	-0.27	-0.47
Multilateral	2.09	2.71	-0.68	-0.87

Source: Levin 2005 • From: World Bank Global Monitoring Report 2005

Note: Policy selectivity shows the policy selectivity index, which measures the elasticity of aid with respect to the quality of recipients' policies and institutions. Poverty selectivity shows the poverty elasticity index, which measures the elasticity of aid with respect to recipients' per capita income.

Selectivity based on performance and poverty has taken hold with MDB assistance increasingly determined by both policy performance and poverty, more so than bilateral assistance. Recent studies measuring the policy and poverty elasticities of aid show that the selectivity of both bilateral and multilateral assistance has improved since 1999. Furthermore, the selectivity of MDB assistance with respect to the quality of policies and institutions and with respect to recipient countries' per capita income remains much higher than that of bilateral assistance.

Improving Debt Sustainability And Increasing Grants

For decades, the international community has responded to developing countries' struggles with unsustainable debt levels through stop-gap measures such as debt reductions, additional borrowing, and reschedulings. It is extremely difficult for countries – even those that make appropriate policy choices – to grow their way out of their "debt trap." In the last several years, the United States has taken unprecedented steps to help ensure that the burden of debt does not leave the poorest and most debt vulnerable countries mired in poverty.

An important step was taken in June 2005 when the United States brokered an historic deal with other G-8 countries to wipe the debt slate clean from IDA, the AfDF, and the IMF for up to 42 HIPC countries demonstrating sufficient commitment to economic reform and poverty reduction.

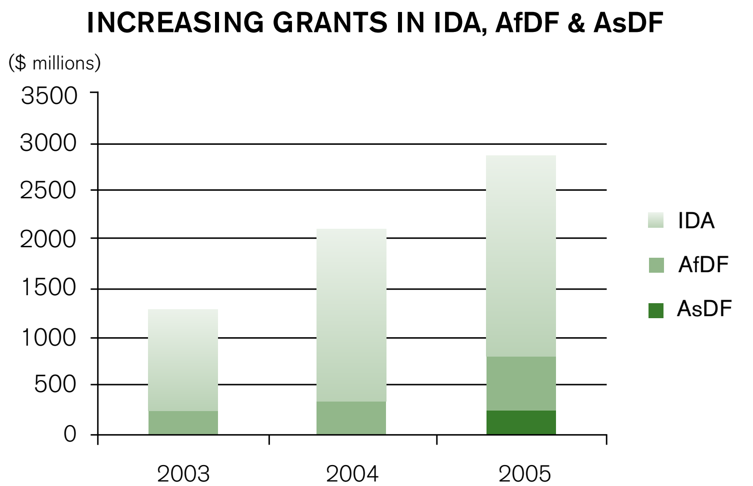
- The Multilateral Debt Relief Initiative (MDRI) will deliver 100% of IDA, AfDF, and IMF Debt Stock Relief for eligible HIPC countries by offsetting gross assistance flows by the amount forgiven. Under the plan, 18 HIPC countries will be immediately eligible for IDA, AfDF, and IMF debt forgiveness: Benin, Bolivia, Burkina Faso, Ethiopia, Ghana, Guyana, Honduras, Madagascar, Mali, Mauritania, Mozambique, Nicaragua, Niger, Rwanda, Senegal, Tanzania, Uganda, and Zambia. The remaining HIPCs will also become eligible as they reach their HIPC Completion Point.

Grant financing is a critical component of long-term debt sustainability. The shift to greater use of grant financing by IDA, AfDF, and AsDF, achieved through U.S. leadership in the IDA-14, AfDF-10, and AsDF-9 replenishment negotiations, will help to reduce the accumulation of unsustainable debts and free up funds for poverty reduction.

- Under IDA-14, grants will now be awarded to countries on the basis of their debt vulnerability. The new formulation for grant allocations represents a significant step in ending the lend-and-forgive cycle of development assistance. Forty-seven countries (out of 62 eligible) will receive grant financing from IDA. Forty-two of these countries will receive 100% of their IDA assistance in the form of grants.
- Under AfDF-10, grants will be extended on the basis of a country's debt vulnerability and 27 countries (out of 38 eligible) are expected to receive 100% of AfDF assistance as grants.
- Under AsDF-9, a grant window was established for the first time in the Asian Development Fund where 30% of assistance to the poorest countries will be in the form of grants.

Last year, IDA, AfDF, and AsDF provided almost $3 billion in grants to the poorest and most debt vulnerable countries.

IDA's grant commitments have grown from nearly $1.0 billion in 2003 to over $2.0 billion in 2005. About 31% of IDA-14 resources – and 45% of assistance to the very poorest IDA-only countries – will be in the form of grants. This represents a 60% increase over the IDA-13 level, where 21% of assistance was in the form of grants. In 2005, the AfDF provided nearly $500 million in grants to the poorest African countries. This was up from $330 million in 2004 and comprised more than 35% of total 2005 AfDF assistance. In the new grant window established under AsDF-9, $250 million in grants was provided in 2005 and an estimated $1.47 billion in grants will be provided to the poorest countries in Asia over the replenishment period 2005-2008.



Private Sector-led Growth and Trade

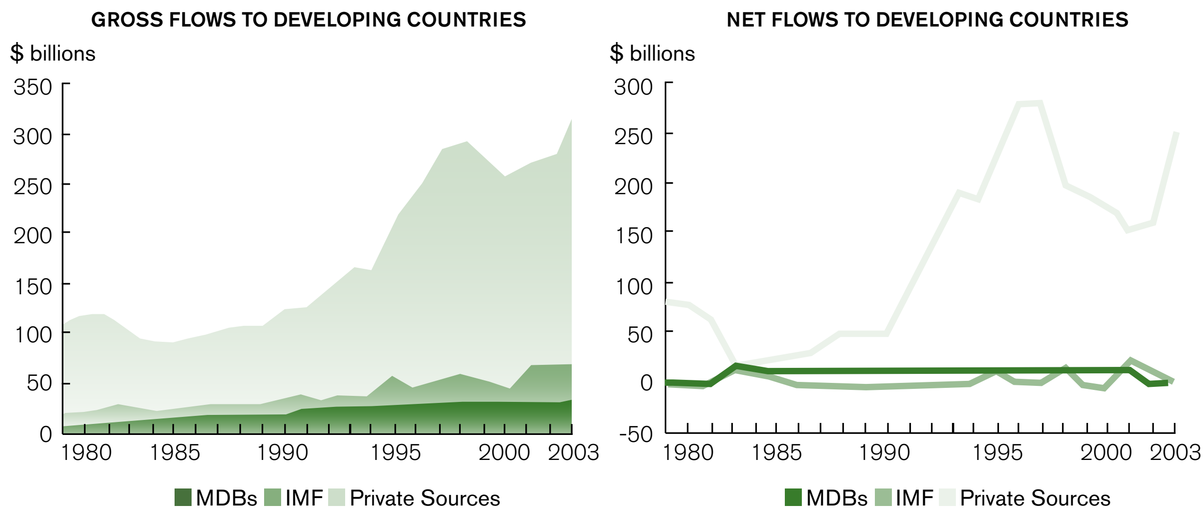
Strong growth requires an economic climate that is conducive to investment, job creation, and productivity. To achieve private sector-led growth, improvements in the overall business and investment climate — removing regulatory impediments, improving legal and judicial systems for the protection of property rights and enforcement of contracts, greater transparency in public sector management, and elimination of corruption — are conditions necessary for increasing investment.

For most developing countries, efficient growth will include substantial international trade. For that reason, supporting improvements to the international trading system through the Doha and WTO negotiations is a key component of the U.S. development agenda. The impact these developments could have on developing nations is enormously positive, increasing economic growth and lifting millions of people out of poverty. This substantial impact is possible because private capital flows dwarf official development assistance.

MDB net flows peaked in 2002 and have since decreased due to an increase in repayments and prepayments from middle-income borrowers, particularly East Asian and Latin American countries.

However, despite the fact that it is small compared to private sector capital flows, official assistance still has a vital role to play in stimulating real economic growth — when properly targeted and designed to yield concrete results. This is particularly the case in the poorer and post-conflict countries where the private sector is sometimes reluctant to invest due to the lack of a sustained track record.

Financial flows from the Big 5 MDBs, IMF, and private sources



Source: World Bank Debtor Reporting System

All of the MDBs are focused on the development of sound regulatory, supervisory and legal frameworks for the private sector in developing countries. All MDBs have played a role in supporting small and micro-enterprises throughout the world — a role the United States wants to continue to expand. The MDBs are also expanding their trade-related activities — trade liberalization policies, infrastructure, customs and trade facilitation — to help developing countries realize the potential benefits of trade to their economies. All MDBs support investments in infrastructure and have recently revitalized their efforts on what was historically their primary focus, but with an eye particularly on investments critical to private-sector growth and partnerships.

- IDA-14 recognized the importance of stimulating private sector growth, and has called on other arms of the World Bank Group — IFC and MIGA — to encourage innovation in support of private sector development. Expanded support is to be provided for micro-, small-, and medium-size enterprises. IDA projects aim to improve the overall investment climate to help develop new industries, and to upgrade infrastructure and services. In December 2005, the Board approved a $20 million IDA project for **Mozambique** to help develop partnerships with the private sector to promote eco-tourism in conjunction with building the capacity of public sector institutions at all levels and local communities to manage biodiversity and natural resources.
- The Inter-American Development Bank (IDB) Board approved 14 private-sector operations in 2005 — six direct loans and eight guarantees totaling $583 million. Seven of the guarantees were under the $400 million regional trade finance facilitation program approved in 2004. Private sector projects included airport development in **Ecuador**, electricity network modernization in **Brazil**, two regional trade finance funds, and a **Dominican Republic** trade facilitation financing program.

- New African Development Bank President Kaberuka has committed the Bank to playing a larger role in supporting private-sector led growth — whether to help build larger markets through regional integration, advise countries on financial or regulatory reforms, or to catalyze investment in much-needed infrastructure, perhaps via partial guarantees. During his first three months in office, he sought Board approval for two promising transactions: a $10 million partial guarantee to support **women entrepreneurs in Kenya**, that will improve these entrepreneurs' access to credit and serve as a pilot that could be replicated elsewhere on the continent; and a $50 million equity investment in the **Emerging Markets Partnership (EMP) Africa Fund** that will improve access to credit and increase the private investment to GDP ratio in Africa from 10% in 2004 to 15% in 2010.
- With strong U.S. pressure, the AsDB has expanded and diversified the scale and scope of its private sector activities, including new projects on workers' remittances, trade finance facilitation, and housing finance. In 2005, 17 private sector loans, equity investments, and guarantees totaling $753 million were approved. In **Afghanistan**, the AsDB invested in a fund that will provide equity and loan financing to small and medium enterprises across a wide range of industries. In the **Kyrgyz Republic**, the AsDF Banking Sector and Capital Market Development Program is promoting sound and more balanced development of the financial sector. The expected impact of the reforms will be increased savings and investments supporting sustainable economic growth.

Box 5 • World Bank/IFC Doing Business Project

To highlight the importance of investment climate and to promote reform, the IFC together with the World Bank initiated the "Doing Business" project (http://www.doingbusiness.org), which has developed quantitative indicators of business regulations and their enforcement across 145 developed and developing countries that can be tracked and compared over time. The Doing Business report is an important effort by the World Bank and the IFC to assess the investment climates of countries and analyze which environments most effectively promote private sector development, a necessary condition for poverty reduction. The lessons taken from this analysis are being incorporated into World Bank reform programs with governments as well as IFC technical assistance.

The most recent Doing Business report indicated that, while much more remains to be done, many governments continue to remove impediments to investment. In 2005, 99 countries enacted 185 reforms to improve their business climates, ranging from strengthening property rights to reducing the cost of exporting and importing goods and services. There are success stories on every continent, from India in Asia, to Brazil in Latin America, to Rwanda in Africa.

Improving investment climates

A good investment climate plays an essential role in economic growth because it provides incentives for the private sector — from large-scale foreign and domestic firms to micro-enterprises — to invest, create jobs, and to re-invest. The World Bank's 2005 World Development Report provided clear evidence that the lack of a conducive investment climate has been the main impediment to investment in most parts of the developing world. Improving investment climates is an essential element in the U.S. MDB reform agenda to promote private sector-led growth.

Surveys of entrepreneurs in developing countries have also consistently reported that weak investment climates — regulatory impediments, lack of access to finance, inadequate infrastructure — are major constraints to their business activities. The costs of a weak investment climate are high, and the benefit of reforms could be substantial. Analysis indicates that Africa's economy could grow by an additional 1.6% a year if the average country were to improve its business regulation system to the level of the average OECD country.

Promoting Small Business

Small business is a key driver of growth and employment. The United States continues to urge the MDBs to expand their support for small business development.

- The Multilateral Investment Fund (MIF), administered by the IDB, works directly with private and public sector partners to strengthen the environment for business, build the capabilities and skills of the workforce, and broaden the economic participation of smaller enterprises. MIF financing supports small-and medium-size enterprise (SME) development across a range of sectors, including agriculture, tourism, manufacturing and services. In 2005, the MIF financed 155 technical assistance and investment projects to increase SME access to credit by developing financial institutions in rural areas, to increase the impact of worker remittances on development, and to help local bank and non-bank institutions develop credit vehicles such as factoring and franchising.
- IFC's technical assistance (funded by the United States and other official donors) helps small businesses and financial institutions to become more competitive and helps governments improve the business climate through the IFC family of SME facilities. IFC currently has 11 SME facilities supporting activities including: access to finance; capacity building; business enabling environment; company advisory assistance; business support services; and investment services.
- As part of a joint IDA/IFC Micro, Small, and Medium Enterprise (MSME) Facility for Africa, the IFC is helping to set up three **SME equity funds in Madagascar, Kenya, and Ghana**. These funds will be operated by Business Partners, a successful South African SME fund manager. In September 2004 the IFC started the **Private Enterprise Partnership for the Middle East and North Africa (PEP-MENA)**, a program to promote private sector and SME development in the region that is based on a successful prototype in the former Soviet Union. In March 2005, the IFC launched PEP-Africa that will promote private sector development in Sub-Saharan Africa.
- IFAD's project supporting root and tuber farmers **in Ghana**, approved in September 2005, will increase these small farmers' access to markets, improve their marketing and bartering skills, and strengthen the capacity of farmer-based organizations. The project will help these small farmers access improved planting material, improved crop husbandry practices, soil fertility management, and integrated pest management techniques. For the small root and tuber processors, the project will promote access to various lending instruments, including matching grants and micro-leasing, to help them improve processing technologies.

Opening Economies To Trade

Promoting free trade is critical if developing countries are to fully participate in the global economy and to improve prospects for rapid poverty reduction. Studies show that the higher a country's trade restrictions, the poorer the country tends to be, and that trade liberalization in developing countries tends to benefit poor people. Trade liberalization is central to the broader vision of private sector-led growth.

In September 2005, President Bush called on the world to recognize that we must turn to the next challenge on the development agenda, and that is the advancement of multilateral trade liberalization. Global trade liberalization has the potential to lift millions out of poverty and the United States has called on the MDBs to expand their work to help developing countries realize the potential of trade liberalization for reducing poverty. Success in the Doha Round would have a significant impact on growth in low-income countries, particularly in Sub-Saharan Africa.

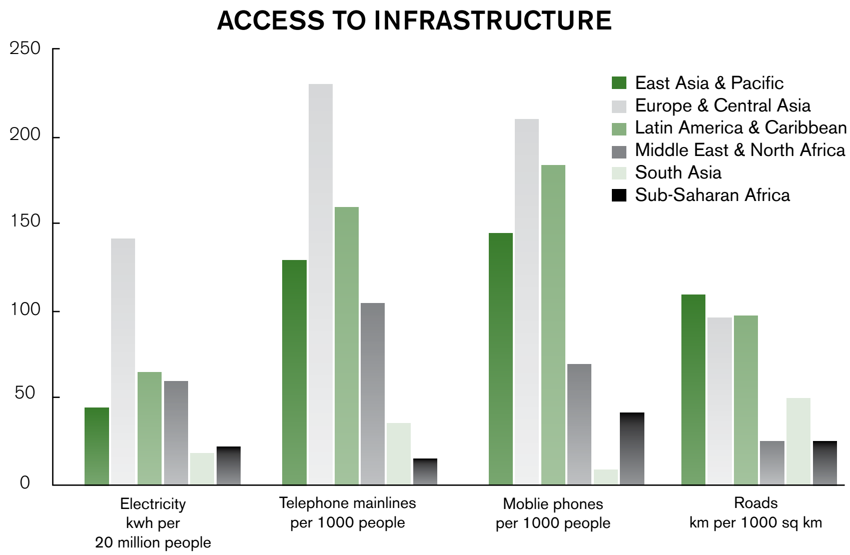
- In 2005, the World Bank/IDA introduced the Africa Action Plan, which recognized that the primary way for African countries to generate economic growth is through trade. The Action Plan aims to help countries identify and fix supply-side constraints that impede competitiveness such as farm-to-market transport, customs processes, and meeting market standards that could prevent African countries from realizing the gains from Doha. In addition, Bank management has committed to increase operational linkages between the Trade Department and other key parts of the World Bank, including the regional vice-presidencies, the private sector development group, and the infrastructure group.

Box 6 • World Bank and Inter-American Development Bank Give Strong Support to the Central American Free Trade Agreement — Dominican Republic (CAFTA-DR)

- The World Bank's timely analysis of CAFTA-DR's benefits to the countries in the region was persuasive to a number of important stakeholders, significantly helping its adoption.
- The IDB strongly supported the passage of CAFTA-DR, committing $10 million in grant funds to support enforcement of labor standards, environmental protection and institutional strengthening related to the treaty. The IDB's 2005 loan pipeline and portfolio of trade-related projects for the CAFTA-DR countries is $1.5 billion, of which 85% supports the transition to free trade.

- The World Bank's trade development work supports investment and technical assistance projects to help countries identify and reap the benefits from trade policy reforms. In 2005, the Bank approved 15 new projects with trade facilitation components for a total of $381 million, focusing on infrastructure, services, financial systems, and helping countries prepare for WTO accession.
- In **Senegal**, **IDA's Agricultural Export Promotion project**, which closed in FY2005, has been a key factor in diversifying Senegal's export base and opening trade with Europe in mangoes and green beans. Since the beginning of the project, horticultural exports have tripled, increasing from 3,671 million CFA francs in 1998 to 9,759 million CFA francs in 2004; and the volume of exports more than doubled from 6,592 tons in 1998 to 14,080 tons, surpassing the project completion target of 10,000 tons.
- In November 2004, the IFC Board approved a $500 million **Global Trade Finance Program** to address the lack of trade finance for companies and banks in developing markets, particularly for South-South (among developing countries) trade. Utilizing best practices demonstrated in a similar EBRD facility, the IFC program should be able to react flexibly to market demand for trade finance. The facility will offer partial or full guarantees to major commercial banks to cover the payment risk of smaller, local financial institutions. The IFC started by rolling out the program through some of its 200 partner financial institutions, and is now extending it to new partners. Thus far, the IFC has been able to sign up a number of banks, and it covered $2.6 million in trade transactions in the first weeks after the program launch in September 2005. The IFC expects that around 20% of the transactions will be for South-South trade and that 30% of the program's business will be in Africa.
- The AfDB has organized, in collaboration with other international organizations, a number of fora to promote trade. In October 2005 in Tunis, the AfDB with the World Bank, put together a workshop on **Accelerating and Diversifying African Export Growth** for high-level policy makers, including African Ministers of Trade, Ministers of Finance, and Governors of Central Banks, private sector representatives, research institutions and academicians. The AfDB has also provided support to African-wide, regional, and national institutions that provide trade financing to importers and exporters. However,

there is much more that the Bank can do to assist African economies in reducing barriers to regional and international trade. The United States has urged the new Bank President to make this a key priority.



Source: World Development Indicators Database.

Improving Infrastructure

Investment in physical infrastructure — along with investments in education and health — is key to faster and sustained economic growth necessary for reducing poverty. Investment in infrastructure in developing countries, both public and private, has fallen significantly over the last decade, leaving many countries with a large infrastructure gap, which diminishes the prospects for private sector-led growth and poverty reduction.

In his premier address to the 2005 World Bank Annual Meeting, President Paul Wolfowitz emphasized that "infrastructure is the lifeline to many other things: to health care, to education, to jobs, to trade.... But in addressing these infrastructure challenges, we need to learn the right lessons from past mistakes. Intelligent management of a country's natural resources is essential to ensure that short-term gains are not made at the expense of long-term health of the poor and their environment."

Improving access to infrastructure is the "lifeline to many other things" but improving quality and reliability is also a critical challenge that plays a key role in attracting private sector investment. The United States has called on the MDBs to increase the effectiveness of their support for investment in infrastructure, particularly in assisting countries to catalyze private sector investment and public-private partnerships.

- The World Bank launched the Infrastructure Action Plan to revitalize its support for infrastructure and, as a result, has increased lending by about $1 billion per year since 2003. Total lending for infrastructure reached over $7.4 billion in 2005, about 33% of the Bank's total portfolio, and is expected to reach $10 billion by 2008, returning to the historical 40% share for infrastructure in Bank lending. Given the large demand to improve weak infrastructure, the action plan rightly focuses on the quality of support

— helping countries improve the investment climate and build public-private partnerships. Improving results measurement is an integral element of the infrastructure action plan.

- In May 2005, IDA supported a $15.2 million project in **Senegal** to upgrade electricity services. In particular, the project is aimed at increasing the electricity supply and the reliability of the services; reducing the costs of the electricity services; and enhancing the performance of key energy sector institutions.
- The IFC finances investment in capital equipment and basic infrastructure such as telecommunications, water supply and treatment, transportation, and electricity. In the **Dominican Republic** (DR), the IFC extended a guarantee of up to $15 million and a loan of up to $10 million (approved in May 2005) to Consorcio Energetico Punta Cana, an off-grid private electric utility in Punta Cana that included the DR's first wind power facility. In **Ghana**, the IFC extended a $40 million loan (approved in March 2005) to Ghana's leading private cellular phone company to expand its network and services, a fast-growing market that is leapfrogging the overwhelmed landline system.
- The AfDB has focused on the development and management of water resources as one of its core areas of intervention because the level of water resource development and utilization in Africa is abysmally low. Only 3% of total renewable water resources are tapped for domestic, agricultural, and industrial consumption each year. Some 300 million people in Africa have no access to clean water and about

(Table 6) MDB Commitments by Sector

Year 2005																
Sector ($ millions)	WBG[16]	Share	IDB[17]	Share		AfDB	Share		AsDB	Share		EBRD	Share	[15]	Total	Share
Agriculture, Fishing & Forestry	1,933	9%	136	2%		436	18%	[1]	314	5%	[2]	569	11%		3,389	8%
Education	1,951	9%	259	3%		163	7%		58	1%		-	0%		2,431	6%
Energy & Mining	1,823	8%	1,193	16%	[3]	393	16%	[a]	1,074	19%		877	17%	[4]	5,360	12%
Finance	1,675	8%	1,233	16%	[5]	313	13%		284	5%		1,690	33%	[6]	5,195	12%
Health & Other Social Services	2,216	10%	2,753	37%	[7]	171	7%		58	1%		-	0%		5,199	12%
Industry & Trade	1,629	7%	428	6%	[8]	49	2%	[b]	25	0%		649	13%	[9]	2,780	6%
Information & Communication	191	1%	32	0.4%	[10]	-	0%		-	0%	[10]	146	3%		369	1%
Law & Justice & Public Administration	5,569	25%	208	3%	[11]	267	11%		778	13%	[12]	-	0%		6,822	16%
Transportation	3,138	14%	571	8%	[10]	303	12%		1,722	30%	[10]	791	16%		6,525	15%
Water, Sanitation & Flood Protection	2,180	10%	448	6%		285	11%		618	11%	[13]	-	0%		3,531	8%
Multisector Infrastructure	-	0%	228	3%		111	4%		865	15%		343	7%	[14]	1,548	4%
Total	22,306	100%	7,489	100%		2,491	100%		5,797	100%		5,065	100%		43,148	100%

[1] Includes rural development and environment lending.
[2] Includes natural resource lending.
[3] Does not include mining.
[4] Includes energy efficiency, natural resources, and power and energy.
[5] Includes multisector credit and preinvestment and capital markets.
[6] Includes bank equity, bank lending, equity funds, non-bank financial institutions and small business finance.
[7] Includes social investment, urban development, and environment.
[8] Includes mining and tourism.
[9] Includes manufacturing and property and tourism.
[10] Communications and transportation are combined and included in transportation.
[11] Includes reform and public sector support, financial sector reform, fiscal reform, e-government, decentralization policies, modernization and admin of justice and parliamentary modernization.
[12] Includes economic management.
[13] Includes waste managment.
[14] Includes municipal infrastructure.
[15] Converted from Euros at rate of 1Euro = 1.1842 USD, from 12/30/05
[16] World Bank Group, includes IBRD, IDA and IFC.
[17] Includes IIC
[a] Power supply
[b] Includes industry, mining and quarrying

313 million have no access to sanitation. To address this challenge, the AfDB, since 2004, has embarked on key water initiatives with the support of regional and international stakeholders — the Rural Water and Sanitation Initiative, the African Water Facility (AWF), and the New Partnership for Africa's Development (NEPAD) Water and Sanitation Program within the NEPAD Infrastructure Program.

- In 2005, the AfDF financed the Baguineda Irrigation Scheme Intensification Project in **Mali**, which will generate an additional production of 7,400 metric tons per year of paddy rice, 11,200 tons of tomatoes, 8,000 tons of onions, and 1,200 tons of maize. The project's intended outcomes include literacy courses for 5,500 people, as well as training in improved production techniques, management, and marketing.

MDB operations support investment in infrastructure, including a significant share for education, health, and water and sanitation. The AfDB commits a relatively large share —18% — of its resources to the agriculture sector as more than half of the population in Africa is rural-based, and agriculture continues to be the mainstay of the rural economy in all countries. Agricultural productivity growth, through more effective and modern farming practices, is essential for accelerated economic output growth in Africa.

Predictable, transparent, and consistently enforced environmental policies are important for attracting private investment. The MDBs have adopted policies and procedures to incorporate environmental considerations into their analyses and operations. Technical assistance and training have helped build environmental management capacity in many countries. Environmental assessment and mitigation plans are routine. Inspection panels have been created to provide a public forum to resolve allegations of adverse impact on affected third parties. Environmental components such as energy efficiency improvements are now often incorporated into projects and sector programs.

Investment in infrastructure must be accompanied by improvements in governance, including effective regulatory frameworks and tariff structures, transparent management of resource revenues and environmental risks, and fighting corruption throughout the entire project cycle.

Good Governance, Increasing Transparency, and Fighting Corruption

Good governance increases the effectiveness of assistance and promotes better use of domestic resources. A strong policy environment supported by accountable public institutions helps assure that funds are not wasted or misused, but instead deployed effectively for their intended development purpose. Improved economic governance — legal and regulatory frameworks, sound public sector expenditure management, and anti-corruption measures — are also necessary to promote private sector investment.

Transparency allows public scrutiny that is essential for accountability and ensuring results. The United States is the strongest advocate for increasing transparency at the MDBs, and is achieving results in advancing the policy goals contained in recent legislation, including section 581 of the FY2004 Consolidated Appropriations Act (Division D of Public Law 108-199) ("Section 581") and section 599B of the FY2006 Foreign Operations Appropriations Act (Public Law 109-102 ("Section 599B"). Important steps have been taken, and increasing transparency continues to be a key part of the U.S. reform agenda. Broadening participation and increasing disclosure help hold the institutions accountable, both to the donor country taxpayers and to the citizens in recipient countries. Further progress is necessary, but important achievements have been made.

Fighting Corruption. The U.S. is committed to strenuous efforts to help prevent, detect, and punish corruption associated with development assistance provided by the MDBs. Such corrupt acts are intolerable, and, as custodians of taxpayer dollars intended to stimulate economic growth and reduce global poverty, the Treasury Department has the obligation of helping to ensure that the MDBs take all the steps necessary to have effective mechanisms to fight corruption in recipient countries, in bank projects, and in the institutions themselves.

Box 7 • Transparency and Accountability: Advancing the Policy Goals of Legislation (Section 581 and Section 599B)

Substantial progress has been made on implementing the policy goals of Section 581. The results across the MDBs on the specific transparency and accountability policy goals are detailed in two reports to Congress and highlighted in the examples below. Progress is considerable, but not complete, and Treasury continues to advance these goals at each of the institutions. In addition, Treasury is working closely with the U.S. Executive Directors at the MDBs to implement the new anti-corruption and transparency policy goals of section 599B.

- The IDA-14 agreement helps reinforce the accountability of the World Bank by calling on its Board of Directors to: (1) disclose Board minutes; (2) strengthen procedures for public consultation processes; (3) make interim results of projects publicly available; and (4) require an independent audit or assessment of internal management controls for meeting operational objectives. IDA has agreed to make publicly available all individual countries' performance (CPIA) rating scores to improve transparency about how countries are performing and how allocations are determined.
- The IDB's policy on information disclosure, approved by the Board in 2003, makes publicly available a wide range of operations-related, financial, and institutional information. The first annual report on the policy's implementation, issued in May 2005, concluded that the policy has been complied with, that the volume of traffic on the Bank's web page is 30% higher since the adoption of the new policy, but notes that there are still challenges in improving access and implementing disclosure on a predictable schedule.
- Under the AfDF-10 agreement, the AfDB Group continually updates its Information Disclosure Policy. In the most recent update in 2005, the AfDB Group committed to making considerably more information available to the public regarding proposed projects, strategies, and policies. Project briefs for public sector projects will be disclosed at least six months prior to Board presentation. All draft policy papers and country strategy papers are to be released via the AfDB website at least 50 days prior to formal Board consideration. In addition, the AfDB agreed to publicly release the highlights of Executive Board discussions. Under strong pressure from the United States, the AfDB has agreed to make the individual country performance ratings and components of the performance-based allocation system fully transparent, in line with IDA's practice.
- Largely because of U.S. leadership, the AsDB continues to build on its 1995 information disclosure policy that ensures that key documents and other information are made available to the public. In April 2005, the AsDB approved a revised Public Communications Policy that provides improved access to documents and commits the AsDB to greater openness with stakeholders. As with the other multilateral development banks, the United States continues to press the AsDB to take further measures to increase the transparency of its internal and external operations, including release of policy and strategy documents and public sector loan proposals that are provided to the Board for consideration.

Fighting Corruption at Three Levels

The MDBs have taken important steps to combat corruption and the United States is at the forefront of continuing efforts to broaden and deepen those initiatives, including ensuring the full effectiveness of integrity units. Anti-corruption efforts remain a top priority in all of the MDBs and the Administration has worked closely with Congress in articulating key goals, objectives, and benchmarks for this critical agenda.

At the ***country level***, the efforts of the United States are focused on increasing the transparency and accountability of countries' governance systems. Sound public sector management and combatting corruption are critical to making development assistance, both multilateral and domestic, effective and for improving the business environment for private sector-led development.

At the ***project level***, the United States is focused on encouraging the MDBs to conduct analyses and design projects in a manner that helps reduce opportunities for corruption, strengthen fiduciary standards, improve project supervision, and disclose results, all to ensure that funds are well spent.

Box 8 • World Bank Takes Strong Action Against Corruption in its Borrowing Member Countries

The World Bank has spoken out strongly against the Government of **Chad's** amending the Petroleum Revenue Management Law, which allocates petroleum revenue to priority sectors such as health and education. In addition, the World Bank has taken action to suspend disbursement of all of its loans to Chad. Acting on its concerns about corruption in **Kenya** at the cabinet level, the World Bank has delayed disbursements on approximately $265 million in loans until it is convinced that the government of Kenya is serious about tackling corruption. Recognizing irregularities and the possibility for corruption in the oil sector, the World Bank strengthened the conditions under which the **Republic of Congo** will receive debt relief under the Highly Indebted Poor Countries initiative. In order to reach completion point (the point at which debt relief become irrevocable), the Republic of Congo must demonstrate sustained performance on good governance and transparent public finances. In order to ensure transparency, oil revenues must be subject to internal controls and an accounting system for oil revenues in line with international standards and best practices based on successive annual audit opinions by an independent firm of international reputation and certified by the national anti-corruption commission.

At the ***institutional level***, the United States is focused on: improving the functioning of MDB internal control processes; assuring the independence of internal auditing; strengthening investigative mechanisms and whistleblower protection systems, and corporate procurement policies and procedures; as well as increasing disclosure and accountability of MDB operations.

Fighting Corruption at the Country and Project Levels

- In FY2005, the World Bank financed over $2.8 billion in projects to help countries improve governance and reduce corruption by strengthening judicial systems, instituting civil service reforms, and establishing budgetary transparency. In **Georgia**, the World Bank's Country Partnership Strategy focuses on improving governance, supporting the Georgian Government's anti-corruption agenda on several fronts. The key objectives are improving the business climate and delivery of social services; reducing opportunities for high-level corruption; and institutionalizing the anti-corruption effort to ensure its resilience over time. In the **Philippines**, a project will develop mobile courts to improve access to justice. These mobile courts have already released juveniles and adult detainees held without trial from congested jails and strengthened access to justice by socially excluded groups.

- During 2005, the IDB approved 22 projects for government reform, for a total of $1.1 billion, or 15% of the total volume of projects approved. These include projects to strengthen economic governance institutions in **Haiti**, improve public expenditure quality in **Peru**, strengthen the national civil service department in **Chile**, and improve public management in **Bolivia**.
- At the AsDB, governance assessments are being undertaken for each borrower and will be used in preparing country assistance programs. Twenty-three countries have endorsed and drafted action plans as part of an Asian Development Bank-OECD Anti-Corruption Initiative for Asia and the Pacific.
- The International Financial Institutions (IFIs) are also a substantial source of funding for countries' efforts to strengthen their own anti-money laundering and counter-terrorism financing regimes. The IMF and the World Bank have delivered over 200 anti-money laundering/counter-terrorism financing technical assistance projects to over 125 countries. The AfDB has set up an anti-money laundering group to tackle systematically anti-money laundering and terrorist financing issues and is currently preparing a Strategy on Money Laundering and Terrorist Financing.

Fighting Corruption at the Institutional Level

- At all of the MDBs, the United States continues to press for adoption of the common MDB international best practice standards for procurement, such as those of the World Bank. Assuring the highest quality procurement standards across the MDBs is an essential element of anti-corruption efforts.
- In the IDA-14 negotiations, the United States obtained a commitment for an independent assessment of the World Bank's internal controls over IDA operations and compliance with its charter and policies.
- In early 2005, the IDB overhauled its policies and procedures for procurement of goods, works, and consulting services. This brings the IDB in line with best practices in procurement. The United States secured the adoption of the strengthened procurement policies and standard documents for the IDB and the MIF through the negotiations of the first replenishment of the MIF.
- At the AsDB, the United States has been the leading voice pressing for stronger internal controls. The Bank's General Auditor has undertaken reviews of key institutional issues, such as the staff retirement plan, administrative expenses transactions, internal procurement, loan covenant compliance, and selected loan disbursement and borrowing transactions, with the objective of upgrading institutional effectiveness.
- In 2005, due to U.S. leadership, the AfDB Board approved the establishment of a new Anti-Fraud and Corruption Unit. The accompanying whistleblower protections will come to the Board in early 2006. Also at U.S. urging, the AfDB is now implementing the first phase of the Committee of Sponsoring Organizations of the Treadway Commission (COSO) internal control framework to enhance corporate efficiency and effectively manage and control internal risks.
- IFAD, as a result of strong U.S. pressure during the IFAD-7 replenishment negotiations, adopted a new Fraud and Corruption Policy under which an investigative unit, a whistleblower protection system, and disbarment procedures in line with those of the MDBs will be established. The policy also calls for a review of IFAD's procurement guidelines to bring them up to World Bank standards and financial disclosure for IFAD staff. IFAD's internal control framework will be strengthened according to the COSO model.

Supporting U.S. Foreign Policy Objectives through the MDBs

As President Bush has said, *"Poverty doesn't cause terrorism. Being poor doesn't make you a murderer. Most of the plotters of September 11th were raised in comfort. Yet persistent poverty and oppression can lead to hopelessness and despair. And when governments fail to meet the most basic needs of their people, these failed states can become havens for terror."*

— March, 2002

Increasingly, poverty appears to be both a contributor to and a consequence of conflict. The MDBs are providing critical support for economic reform in countries on the front lines of the effort of the United States to combat terrorism around the world, including reconstruction of Iraq and Afghanistan, and support for post conflict countries and fragile states to keep the peace and revitalize their economies.

The MDBs also provide critical support in response to global and regional challenges. The World Bank, along with the regional development banks, is uniquely positioned to take on a host of global issues in developing countries — from avian flu and disaster assistance to combatting HIV/AIDS — playing a critical role in helping countries develop and implement a response.

Reconstruction in Iraq and Afghanistan

Iraq

In November 2005, the World Bank approved its first loan to Iraq in over thirty years. The $100 million education project will help alleviate school overcrowding and lay the groundwork for educational reform. In December 2005, the IFC Board approved an investment in a greenfield cement plant in northern Iraq. The IFC will commit $98 million of its own money and mobilize another $112 million through its B-loan syndication program.

Afghanistan

The World Bank has been a key partner in the reconstruction and revitalization of the Afghan economy, focusing primarily on improving public administration, improving rural livelihoods by rebuilding infrastructure, and providing education and health services. As a post-conflict country, Afghanistan is expected to receive approximately $267 million from the World Bank over the next three years. The AsDB with the United Nations Development Program (UNDP), World Bank, and Islamic Development Bank, administers the Afghan Trust Fund. To date, the AsDB has disbursed $244 million in soft loans and technical assistance grants, funding transport, energy, and natural resource management projects while at the same time supporting technical assistance in governance and financial sector development. The AsDB has also established a resident mission in Kabul.

At the London Donors Conference for Afghanistan in January 2006:

- The World Bank announced a pledge of $1.2 billion to Afghanistan over the next 10 years. The World Bank's pledge helped bring to $10.5 billion the total pledges Afghanistan received at the conference.
- The AsDB announced plans to commit an additional $400 million in concessional loans and grants for FY2009-FY2010, over and above the $500 million announced in Berlin in 2002.

Disaster Assistance for Pakistan Earthquake

- The World Bank has committed over $1 billion in support of reconstruction in the wake of the devastating earthquake that hit Pakistan in October 2005. The funds will be used to support projects that will help the Government of Pakistan's efforts to reduce the immediate suffering and restore livelihoods; reconstruct housing; and help finance needed imports. In addition to lending, the World Bank also authorized a grant of $5 million for emergency earthquake relief from the IBRD Surplus Account.
- The AsDB and the World Bank mobilized a joint needs assessment within one week of the earthquake to determine immediate assistance needs. The AsDB identified housing and health care as immediate needs and was able to mobilize $300 million in AsDB funding to fund efforts to meet these needs.

Support to Stem Avian Flu

- The World Bank has launched a new avian flu global facility to provide financial and technical assistance to individual countries. Formally called the Global Program for Avian Influenza and Human Pandemic Preparedness and Response (GPAI), the $500-million line-of-credit operation will coordinate action and co-financing with other multilateral organizations. Already the Bank is working closely with a number of countries, including Vietnam, where the Bank has had a $5 million project since 2004 to help Vietnam improve its animal and livestock surveillance capabilities. Bank experts are also working with counterparts in Turkey and the Kyrgyz Republic to assess the needs of those countries.
- The AsDB has swiftly responded to avian flu outbreaks in the region through redirecting ongoing AsDB assistance for communicable diseases to examine prevention tools for stemming the spread of the flu. In November 2005, the AsDB released an economic impact assessment of a widespread avian flu outbreak and prepared additional lending operations to build regional surveillance tools and provide public information on how to prevent a pandemic. The AsDB has pledged $470 million to contribute to the global efforts to stem avian flu.

Disaster Assistance Following the South Asia Tsunami

- Total tsunami assistance provided by the World Bank amounts to more than $750 million, of which a $27 million grant was provided from the IBRD's surplus fund. The Bank was a key coordinator of the relief effort, and brought together 15 donors under a $525 million Multi-Donor Fund for Aceh and Nias. To address lagging donor disbursements in Indonesia, the World Bank in conjunction with the AsDB, has offered co-financing opportunities, promoted the flow of information with regular updates, and assisted with on-the-ground coordination in Indonesia.
- The IFC Board approved in March 2005 a $150 million facility to fund the rebuilding of tourism operations damaged by the December 2004 tsunami. At that point, the IFC had already identified three hotel chains operating in the Maldives and Thailand as beneficiaries of the facility. All three were quality firms that had shown an ability to remain profitable, even after the post-9/11 tourism downturn.
- In response to the tsunami, the AsDB immediately established a $600 million Asian Tsunami Fund (ATF) to provide grant financing to all affected countries to rebuild and restore local economic activity. The AsDB also developed a well-received donor tracking system with the UNDP to ensure transparency as to how donor funds are utilized for the reconstruction efforts.

- Within one month of the tsunami, the AfDB approved a $500,000 disaster assistance package to Seychelles and to Somalia to assist the recovery efforts from tsunami-related damage to coastal areas and ports.
- In 2005, IFAD committed to mobilizing $100 million in new resources for affected countries (India, Maldives, Indonesia, and Sri Lanka). IFAD's projects will help the rural poor affected by the disaster to rebuild their communities and their livelihoods.

Supporting Post-conflict Countries and Fragile States

- The World Bank established the Post Conflict Fund (PCF) in 1997 to help conflict-affected countries transition to peace and economic growth, and to pilot innovations in those areas. Today the Bank is actively engaged in over 35 conflict-affected countries across all regions. Through its PCF grant facility the Bank approved $6.1 million during 2005 to support countries affected by conflict or in the transition from conflict to peace. The Africa region receives the most funding, with 42% of the amount of approved proposals.
- To address the particular needs of fragile states, the World Bank developed the Low-Income Countries Under Stress (LICUS) Initiative. Traditional aid programs have not worked in fragile state environments. Total disengagement has proven risky, perpetuating poverty and failing to prevent cross-border spillovers with adverse regional and global consequences — such as conflict, organized crime, and epidemic diseases. For the fragile states the Bank established the LICUS Implementation Trust Fund with an initial allocation of $25 million, to support governance improvements and social service capacity-building, primarily for countries in non-accrual status and unable to obtain regular IDA financing. Countries such as Liberia, Haiti, Central African Republic, and Angola have all benefited from LICUS funding.
- In response to strong U.S. leadership, the AfDB established a new Post-Conflict Country Facility (PCCF) for assisting post-conflict countries. The AfDB will now have the capacity to help countries clear their arrears — in conjunction with sister international financial institutions — in order to regain access to new assistance for reconstruction and rehabilitation of their conflict-torn economies. Liberia could benefit from the PCCF over the next 12 months.

Fighting HIV/AIDS

- In the last five years, the World Bank has committed $1.88 billion through grants, loans, and credits to programs to fight HIV/AIDS. Total Bank lending for HIV/AIDS since 1989 is over $2.7 billion. An independent evaluation of the Bank's interventions on HIV found that the "World Bank's assistance has induced governments to act earlier or in a more focused and cost-effective way." The World Bank coordinates its interventions with other donors, focusing on the development of national strategies to fight HIV/AIDS and building institutional capacity to implement them effectively.
- The AfDB has intensified support to its regional member countries by mainstreaming HIV/AIDS prevention and control activities in sector projects and programs, as well as promoting stand-alone country-specific and sub-regional initiatives. The AfDB's contribution thus far in the fight against HIV/AIDS is estimated to be over $750 million. The AfDB is also among the initiating partners of AIDS in Africa — Scenarios for the Future — a project which will enable governments and development partners to make strategic choices and define their activities accordingly to overcome the challenges posed by HIV/AIDS.

Support for Debt Restructuring Programs

FY2006 Appropriation	FY2007 Treasury Request
$64,350,000	$182,799,000

For FY2007, the Administration has requested $182.8 million for bilateral Heavily Indebted Poor Countries (HIPC) and poorest country and Tropical Forest Conservation Act (TFCA) debt reduction programs. Under the enhanced HIPC initiative, at least $175 million of the requested funding is required to complete U.S. bilateral debt reduction for the Democratic Republic of the Congo (DRC) in FY 2007, when DRC is expected to reach its Completion Point[1]. The remainder of the request will be used for TFCA debt programs or for other potential HIPC-related debt reduction costs (for countries such as Liberia and Sudan).

The **enhanced HIPC initiative** was launched to provide deeper, broader, and faster debt reduction for the poorest heavily indebted countries committed to economic reform and poverty reduction. The HIPC program was designed to help these countries achieve debt sustainability. For countries that complete the HIPC process, based on performance on economic policies and poverty reduction efforts, the landmark Multilateral Debt Relief Initiative (MDRI) aims to achieve debt sustainability more conclusively, and end the lend-and-forgive cycle, by providing 100% debt cancellation on obligations to the International Monetary Fund (IMF), the International Development Association (IDA), and the African Development Fund (AfDF).

The **Tropical Forest Conservation Act (TFCA)** authorizes debt relief for low and middle-income countries with tropical forests to support conservation of endangered forests. Under the TFCA, eligible countries can, through negotiation with the United States, treat a portion of their U.S. debt by engaging in one or more of the following activities: a debt buyback; a debt swap with an eligible third party (usually an international environmental non-governmental organization (NGO)); or a debt reduction/restructuring. Resulting local currency payments are used to establish a Tropical Forest Fund or equivalent mechanism in the country that will in turn make grants to local NGOs and other entities engaged in a variety of forest conservation activities. The United States uses appropriated funds to pay for the budget cost of this debt reduction/redirection.

Recent Accomplishments in Support of U.S. Objectives

- ***Achievement of an unprecedented Paris Club debt reduction agreement for Iraq.*** Creditors agreed to 80% debt reduction, tied to economic performance. This deep debt reduction is needed to relieve Iraq of its massive Saddam-era debt burden and pave the way for economic recovery and growth. The United States went beyond the Paris Club framework to forgive all $4 billion in U.S. claims on Iraq;
- ***Successful negotiation of debt deferral and rescheduling agreements for Indonesia and Sri Lanka in the Paris Club,*** to help these countries devote more resources to recovery and reconstruction following the tsunami disaster;

[1] A HIPC country reaches its Completion Point when it meets a pre-determined set of key conditions, which enables it to receive irrevocable stock of debt reduction.

- ***Agreement on an innovative debt restructuring for Nigeria in the Paris Club***. In the context of a debt reduction and buyback agreement that will eliminate all of Nigeria's debt to Paris Club creditors, the United States will receive more than $350 million in payments from Nigeria, which more than offsets the U.S. budget cost of the debt treatment.
- ***Under the enhanced HIPC initiative, 28 countries have now demonstrated sufficient progress on economic reform and commitment to poverty reduction to reach their Decision Points***. They are benefiting from debt relief that will lower their stock of debt by two-thirds, reduce debt service ratios by nearly half, and allow for increased poverty reduction expenditures in areas such as basic health, education, and rural development.
- ***Under TFCA, a total of nine agreements have been signed with eight countries*** and will generate more than $95 million for tropical forest conservation.

Enhanced Heavily Indebted Poor Countries (HIPC) Initiative

Key Facts

Debt Relief under the Enhanced HIPC Initiative

- The Democratic Republic of the Congo (DRC) is projected to reach its HIPC Completion Point in FY2007 and therefore makes up the bulk of the FY2007 budget request. Since the United States is the largest bilateral creditor, other creditors will not go forward with final HIPC stock of debt reduction until the United States is able to participate.
- As of the end of FY2005, 28 countries (see Table 7) had made sufficient progress on economic reforms and commitments to poverty reduction to reach their HIPC Decision Points. This enables them to benefit from relief on debt payments coming due. Eighteen of these countries have met the conditions to reach their HIPC Completion Points, and qualified for reduction in their stock of debt – three countries reached their Completion Points over the course of FY2005.
- Creditors have committed to reduce the external debt of these 28 countries by about $56 billion (nominal terms) under the HIPC framework. Overall debt relief for these countries, including from additional bilateral relief provided by the United States and some other creditors, will reduce the external debt of these countries by about two-thirds in aggregate.
- Debt service ratios for these twenty-eight countries have been cut dramatically. On average, debt service/exports ratios have been reduced from pre-HIPC levels of 16% to 8.5%.

U.S. Leadership on the HIPC Initiative

- The United States has been a leader on the enhanced HIPC initiative, which has been reflected in the Administration's budget requests and Congressional actions in past years. Since FY2000, Congress has provided a total of $263.4 million in appropriations for bilateral HIPC debt reduction costs and $674.6 million for U.S. contributions to the HIPC Trust Fund.[2]
- In FY2006, Congress appropriated $44.6 million for HIPC and poorest country bilateral debt reduction costs; this combined with remaining funds from FY05 appropriations will be used for completing U.S. bilateral debt reduction for the DRC in conjunction with its HIPC Completion Point.

[2] The multilateral HIPC Trust Fund helps to cover the HIPC costs of certain regional multilateral institutions.

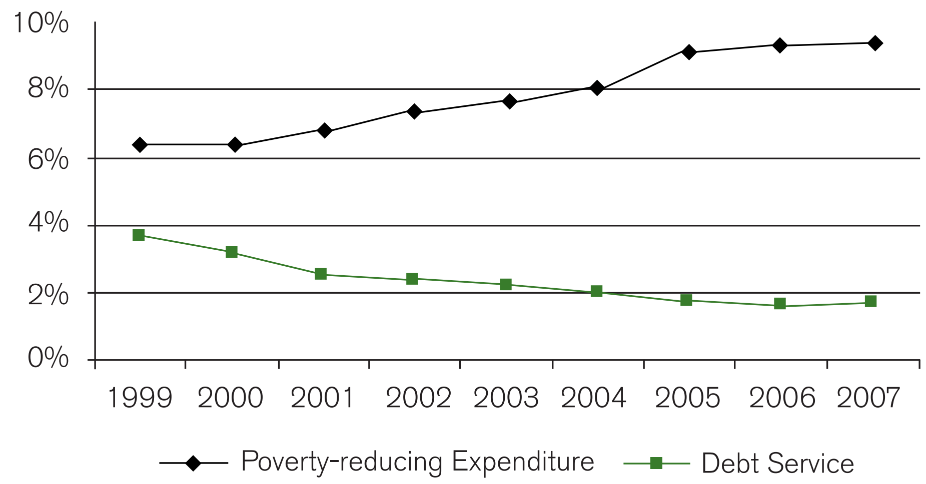
- Official bilateral creditors are also expected to contribute to the HIPC Trust Fund. The United States has pledged roughly 22% of HIPC Trust Fund costs and has so far contributed roughly 23% of amounts paid in ($675 million out of $2.9 billion).

Use of HIPC Relief

- HIPC debt relief will significantly reduce HIPC qualifying countries' annual debt service obligations, freeing resources for poverty reduction expenditures. Over the 2001-2005 period, total annual debt service savings for these countries will average $1.0 billion.
- The HIPC qualifying countries are required to use the resources freed up by debt relief to support poverty reduction and economic growth. As shown in the figure below, poverty-reducing expenditures have increased in HIPCs in recent years. Poverty-reducing expenditures for the 28 HIPCs that have reached their Decision Point were almost four times as large as debt service payments in 2004.

POVERTY-REDUCING EXPENDITURES AND EXTERNAL DEBT SERVICE

(Weighted average, % of GDP)



(Table 7) Debt Relief under the HIPC Initiative

(Total HIPC relief committed, $US Millions)

	Enhanced HIPC Decision Point	Total HIPC Debt Reduction In NPV Terms	Nominal
Countries that have reached Completion Point (18)			
Benin	July 2000	265	460
Bolivia*	Feb. 2000	1,302	2,060
Burkina Faso*	June 2000	553	930
Ethiopia	Nov. 2001	1,982	3,275
Ghana	Feb. 2000	2,186	3,500
Guyana*	Nov. 2000	591	1,353
Honduras	July 2000	556	900
Madagascar	Dec. 2000	814	1,500
Mali*	Sept. 2000	539	895
Mauritania	Feb. 2000	622	1,100
Mozambique*	April 2000	2,023	4,300
Nicaragua	Dec. 2000	3,308	4,500
Niger	Dec. 2000	664	1,190
Rwanda	Dec. 2000	452	800
Senegal	June 2000	488	850
Tanzania	March 2000	2,026	3,000
Uganda*	Feb. 2000	1,003	1,950
Zambia	Dec. 2000	2,499	3,850
Countries that have reached Decision Point (10)			
Burundi	Aug. 2005	826	1,472
Cameroon	Oct. 2000	1,260	2,800
Chad	May 2001	170	260
Congo, Dem. Rep.	July 2003	6,311	10,389
Gambia	Dec. 2000	67	90
Guinea	Dec. 2000	545	800
Guinea-Bissau	Dec. 2000	416	790
Malawi	Dec. 2000	643	1,000
Sao Tome & Principe	Dec. 2000	97	200
Sierra Leone	March 2002	600	950
Total HIPC		**33,071**	**56,367**

* Countries that received a portion of debt relief under the original HIPC Initiative.

Countries with Decision Point Expected in 2006 or later (8)		Other HIPCs (6)	
Central African Republic	Liberia	Sustainable Debt Levels without HIPC Relief	
Comoros	Somalia	Angola	Vietnam
Congo, Rep.	Togo	Kenya	Yemen
Cote d'Ivoire		Legislation Prevents the U.S. from Reducing Debt of:	
Laos		Burma	Sudan

Source: IMF/World Bank, Heavily-Indebted Poor Countries (HIPC) Initiative – Status of Implementation, August 22, 2005.

Tropical Forest Conservation Act (TFCA)

Key Facts

- In FY 2006, approximately $60 million in TFCA funding remains in the Treasury Debt Restructuring Account. About $30 million of this amount has been allocated to countries that have been declared eligible for TFCA. We anticipate that this funding, together with any amounts the Administration may decide to allocate to TFCA from the FY2007 budget, will fully fund all TFCA requirements in FY 2007.
- Nine TFCA agreements in eight countries (Bangladesh, El Salvador, Belize, Peru, the Philippines, Panama (two agreements), Colombia, and Jamaica) have been concluded to date.
- These agreements will generate over time more than $95 million for tropical forest conservation.
- Under the TFCA debt swap mechanism, a unique public/private partnership has evolved in which various environmental organizations provide additional funds for debt reduction, increasing the size of individual agreements, and contributing additional expertise in the management of resulting programs. Six of the nine TFCA agreements so far provide for debt swaps.
- Negotiations are underway with an additional three countries — Paraguay, Guatemala, and Botswana — with which TFCA agreements should be completed in FY2006. Additional countries are under consideration for TFCA eligibility.
- TFCA underwent a PART (Program Assessment Rating Tool) review by the Office of Management and Budget in 2004, and received a rating of "results not demonstrated," largely because that the program did not have performance measures in place that would enable a meaningful evaluation. As a result of the PART exercise, the Administration has developed and begun the implementation of an evaluation system that provides for consistent, on-going evaluation and reporting across local TFCA programs.

(Table 8) TFCA Agreements

Country	Year	USG Cost ($US Millions)	Swap Contribution $US Millions)	Funds Generated ($US Millions)
Bangladesh	2000	6.0	--	8.5
El Salvador	2001	7.7	--	14.0
Belize	2001	5.5	1.3	9.0
Peru	2002	5.5	1.1	10.6
Philippines	2002	5.5	--	8.3
Panama I	2003	5.6	1.2	10.0
Colombia	2004	7.0	1.4	10.0
Panama II	2004	6.5	1.3	10.9
Jamaica	2004	6.5	1.3	16.0
TOTAL		**55.8**	**7.6**	**97.3**

Support for Treasury Technical Assistance Programs

FY2006 Appropriation	FY2007 Treasury Request
$19,800,000	$23,700,000

The FY2007 request for Treasury International Affairs Technical Assistance (TIATA) is $23.7 million. The program provides financial advisors to countries seeking assistance in implementing significant economic reforms, especially during critical periods of transition to market-based economies. The program supports economic policy and financial management reforms, focusing on the functional disciplines of budget, taxation, government debt, financial institutions, and financial enforcement.

In FY2007, it is estimated that $5.47 million (23%) of the funds requested will be used by Treasury Technical Assistance to fund resident and short-term advisor projects with countries combatting money laundering and terrorist finance activity. A large portion of the funds requested (32%) will be used for assistance programs in sub-Saharan Africa, supporting economic and financial reforms in countries receiving HIPC debt relief, and other areas of emphasis. Over a quarter of the requested funds requested (25.7%) will be used to carry out projects in the Greater Middle East, including Afghanistan, Iraq, and Jordan.

This level of funding will allow Treasury to pursue the following objectives:

- Design and implement technical assistance projects to promote economic policy reforms, enable countries to develop market-oriented economies, strengthen governance, and build capacity in countries that have expressed an interest in receiving such assistance and where the United States has crucial foreign policy interests.
- Continue expansion of Treasury's major commitment to provide technical assistance to reform-oriented countries in Sub-Saharan Africa. Existing projects operate in South Africa, the East African Community, Tanzania, Liberia, Nigeria, Ghana, Guinea, Ethiopia, Mauritius, Botswana, Malawi, and Zambia.
- Continue existing anti-corruption, anti-money laundering, and related programs to combat the financing of terrorism (AML/CFT) that are currently operating around the globe. On-going work in Latin America is being carried out with the Grupo de acción Financiera de América del Sud (the South American Financial Action Task Force-style regional body), in Bolivia, Chile, Paraguay, Peru, twenty-one countries in the Caribbean, and all but two Central American countries. (The Financial Action Task Force [FATF] was created as a G-7 initiative to stem the flow of international money laundering and now has a broad international membership.) In Africa, Treasury works with the Groupe Inter-gouvernemental contre le Blanchiment en Afrique (the African FATF-style regional body), the Economic Community of Western African States, and the Eastern and Southern Africa Anti-Money Laundering Group, as well as in Senegal, Tanzania, Uganda, and Zambia. In Asia (Sri Lanka) and in Central and Eastern Europe (CEE) and the Former Soviet Union (FSU), including Albania and Ukraine, Treasury carries out AML/CFT initiatives that are financed with TIATA funds. In addition, Treasury supports

the efforts of the interagency Terrorist Financing Working Group (TFWG) process by participating in assessment missions and performing follow-on technical assistance in countries designated by the TFWG as vulnerable to terrorist organizations and their funding efforts.

- Engage in technical assistance to support the legitimacy, and build the effectiveness, of governments operating in post-conflict situations. Policymakers have increasingly found that technical assistance can play a positive role in helping post-conflict governments develop fiscal operations important for supporting essential reconstruction activities that foster democracy. Originally deployed in Bosnia and Kosovo, Treasury technical assistance has been used to great effect in Afghanistan, Liberia, Haiti, and Sri Lanka, as these countries cope with the after-effects of armed conflict. Treasury made a major commitment to post-conflict Iraq, posting more than 60 advisors in that country during the first 18 months of engagement. Additional advisory activities in the banking and government debt areas in Iraq are being planned for FY2007.

Program Mandate

In 1991, Treasury established the Office of Technical Assistance (OTA) as the operational office through which it delivered financial technical assistance. Beginning with the initial appropriation from Congress in FY1999, Treasury created the TIATA program and expanded the reach of its technical assistance operations outside of its traditional base in Eastern Europe and the Former Soviet Union to include a select and limited number of countries in Asia and Africa, as well as Central and Latin America. It is in these last four regions, and, to a growing extent, the Greater Middle East, that Treasury now sees its primary responsibility for the future.

In the implementation of its technical assistance activities, Treasury places a priority on those countries where governments are committed to economic policy reform and market-oriented economies. Treasury's advisory assignments are accomplished through resident or intermittent advisors who work with identified senior management level counterparts. Advisor assignments are limited to five core areas of government policy and management where Treasury has specialized expertise:

- Budget policy and administration;
- Tax policy and administration;
- Financial institutions policy and regulation;
- Government debt issuance and management; and
- Financial enforcement.

Treasury's technical assistance projects are designed to support economic objectives established by the international financial institutions (IFIs) in their country plans. Treasury also works on a cooperative basis with IFI technical assistance programs. Treasury projects are coordinated with the State Department and United States Agency for International Development (USAID) headquarters in Washington, D.C., as well as with individual embassies and USAID missions. Treasury is an active participant in the State/Counter Terrorism and State/INL led inter-agency Terrorist Financing Working Group (TFWG) that is responsible for coordination of technical assistance designed to counter the financing of terrorist groups. In addition, Treasury works with State/INL-sponsored projects designed to address money laundering, corruption, and other financial crimes.

Treasury is committed to keeping the TIATA program flexible and dynamic. Projects compete for funding each year. The project portfolio is constantly monitored, and projects that are not achieving desired results, as established by objective performance measures, are phased out to free up funding for new projects. In addition, Treasury is committed to a philosophy of mobilizing rapidly to respond to technical assistance requests, but to limit the term of its engagement so that an assistance project does not exceed its original scope without establishing new or revised terms of reference. Treasury intends to use FY2007 resources to expand its assistance programs to new countries, in addition to extending previously initiated multi-year projects. Treasury will consider new projects in countries where counterparts are committed to an economic reform agenda and where Treasury has appropriate expertise.

Treasury receives more requests for new technical assistance projects than can be funded with existing resources. All requests are evaluated closely to ensure that they advance the overall objectives of U.S. foreign and economic policy.

Key FY2005 Program Success Highlights

The five teams within OTA, each representing one of Treasury's core disciplines, have achieved major project successes in FY2005. Many were the result of Treasury's focus on economic policy reforms, anti-corruption, internal institutional controls, governance, and fiscal transparency. Examples include:

Budget (internal controls, fiscal transparency, and governance)

From 2002-2004 spending in South Africa substantially exceeded the planned amounts. While the budget only projected a 10% increase, spending actually grew at 30% per year. This had the very unwelcome effect of reducing available funding for vital education and health initiatives. The Treasury resident budget advisor, working with national and regional program administrators, developed a comprehensive set of policies to control spending. The advisor worked also with South Africa National Treasury officials to fund a financial data information system throughout the provinces to monitor spending. The growth in spending for 2005 was reduced to 8%, the level for which the National Treasury had budgeted. This project was conducted in partnership with USAID.

Government Debt (capacity building, internal controls, and governance)

Treasury helped establish a Primary Dealer Ranking System in Uganda that gives the Central Bank a quantitative means for assessing the performance of the primary dealers. Treasury technical assistance also contributed to the process that enabled Uganda to receive its initial sovereign debt rating from Fitch Ratings Services. In addition, Treasury helped organized the first buyback of government debt in Uganda to manage rollover risk and wrote investment guidelines for the National Social Security Fund, the only source of long-term capital in Uganda.

Financial Enforcement
(anti-corruption, anti-money laundering, and counter financing of terrorism)

Treasury successfully assisted the Government of Malawi by mentoring criminal tax investigators and prosecutors in the first ever large tax evasion case which ended in a conviction of the defendant. Additionally, Treasury's resident enforcement advisor in Paraguay contributed greatly to the establishment of the Government of Paraguay's FIU in 2003. This placed the country in compliance with Egmont Group standards, thereby securing its membership in the Egmont Group and enabling it to receive and effectively use suspicious activity reports from member-country FIUs. Paraguay's FIU is considered one of the most capable in South America.

Financial Institutions (capacity building, governance, and fiscal transparency)

Treasury advisors assisted in the structure of the sale of approximately $850 million of problem bank loans for the Savings Deposit Insurance Fund, Turkey's deposit insurance agency. The transaction, carried out by a joint venture, resulted in a projected present value bid of over $300 million (more than 35% of book value) from Lehman Brothers and its Turkish bank partner – a significant achievement in an emerging market context.

Tax (fiscal transparency and capacity building)

Treasury, in partnership with the US Embassy and USAID in Liberia, entered into an agreement to design, purchase, install and implement a system to control electronically all tax bills produced by the Ministry of Finance and cross check payments electronically with the Central Bank software system. This automated system will strengthen and secure the principal source of revenue of the Government of Liberia by reducing corruption in the present tax payment process, and build upon the sound cashier and computer infrastructure of the Central Bank.

Post-conflict Countries/Failed-states Initiatives

Treasury has become increasingly active in providing assistance to countries in post-conflict situations and those that have been identified as failed states. In these engagements, Treasury has proven itself able to respond quickly with the placement of expert teams into inhospitable operating environments where technological infrastructure and institutional capacity are lacking. Treasury advisors have been able to make a marked contribution to the stabilization of the respective ministries with which they are paired.

TIATA does not provide long-term funding of expenses in post-conflict/failed-state initiatives. However, there are occasions when it is necessary to bridge the funding gap until alternative resources become available. Unlike other country-specific sources of funding, such as the Support for East European Democracies Act and the Freedom Support Act, TIATA funding is sufficiently flexible to do this.

Iraq and Afghanistan

During FY2005, Treasury's technical assistance efforts in Iraq have been focused on the implementation of the Iraq Payments System. This is an electronic system designed to facilitate funds transfers and reconciliation of accounts between banks throughout the country and the Central Bank of Iraq. The two core components of the project are a real time gross settlement system and an automated clearinghouse for batch payments. In addition, a recently added third component involves establishment of an electronic government securities registration system. In FY2007, Treasury plans to provide advisors in the areas of banking, budget, and government debt.

At present, Treasury is engaged in three functional areas in Afghanistan. Treasury is supporting the Ministry of Finance through institutional strengthening and capacity building in the areas of bank restructuring, credit access, payments systems, and creation of non-bank financial institutions and markets (insurance, leasing, and mortgage finance). Treasury is also assisting the Ministry through training of Debt Management Unit personnel, developing appropriate debt tracking mechanisms and policies and procedures for debt management, and assisting with the development of sound cash management practices and procedures. Treasury plans to focus its financial enforcement technical assistance on the establishment and development of a Financial Intelligence Unit as a semi-autonomous unit within the Central Bank of Afghanistan.

Liberia

Treasury's technical assistance to Liberia represents a comprehensive approach to improving operational and management capacity within key governmental institutions. The overarching goal of the engagement is to improve the government's ability to generate revenue (via increased tax collection and a rationalization of the tax system), to create a transparent and sound government budget that reflects a measured prioritization of expenditures, and to transform the banking sector into an efficient means of allocating financial resources among productive economic activities. Due to the flexibility afforded by TIATA funding, Treasury placed a team of advisors on the ground in Monrovia earlier than other providers of assistance in the economic sector were able to do so.

Haiti

Treasury was a "first responder" to the post-conflict situation in Haiti. Security is still unstable in the country and violence has caused some delays, but work is continuing. The Treasury financial enforcement team is assisting the Government of Haiti's efforts to combat corruption and to recover substantial assets pilfered from that government's treasury. The Treasury team has worked with the Unite Centrale de Renseignements Financiers (Central Financial Information Directory) in the identification and gathering of evidence for use in prosecutions in Haiti and abroad, including a Racketeer Influenced Corrupt Organization (RICO) suit filed in the U.S. District Court in Miami.

The Treasury tax policy and administration team is focusing on ways to enhance management of information, reorganization of the Direction General des Impots (DGI, the tax administration), improvement of collection techniques, management development, and customer service.

Program Assessment Rating Tool (PART)

Treasury's Office of Technical Assistance (OTA) first responded to the OMB request for a PART submission in 2003. Since that time OTA has designed and implemented an internal Project Management Tracking System (PMTS) to specify measurable objectives and milestones for every technical assistance project in progress. In 2005, OTA integrated the PMTS process into its overall engagement system, which includes the Terms of Reference, Budget Request, Workplan, and Monthly Reports required for each project. In 2006 OTA is working with OMB to enhance the overall program measures on which OTA reports PART results.

World Bank Group

International Development Association (IDA) Request: $950.0M

The International Development Association (IDA) was founded in 1960 as the soft loan affiliate of the IBRD to promote sound economic management and poverty reduction among its poorest developing country members. IDA provides concessional loans and grants to the poorest countries around the world to create the social and economic conditions needed to achieve sustainable growth and poverty reduction. The majority of IDA funding comes from periodic replenishments from donor countries, though repayments from past loans, investment income, and transfers from World Bank net income are also important sources of IDA resources.

The Administration has requested $950.0 million for FY2007 for the second of three payments under the U.S. commitment to the 14th replenishment of IDA, covering the period July 2005 through June 2008. Congress appropriated $940.5 million in FY06 for the first payment of the U.S. contribution to IDA14.

Key Facts

- The U.S. share of IDA-14 is approximately 13%, and in terms of voting shares the United States is the single largest shareholder with 11.51% of voting power.
- In 2005, IDA made commitments of $8.6 billion, representing 160 operations in 66 countries. From a regional perspective, the largest shares of IDA resources went to Africa with 45% and South Asia with 33%.
- IDA is now the single largest source of donor funds for basic social services in the poorest countries. In 2005, IDA's support for projects was targeted at human development such as education, health, water supply and sanitation (36%); law, justice and public administration (23%); industry (18%); infrastructure (14%); and agriculture and rural development (8%).

Supporting U.S. Policy Priorities

In the IDA-14 negotiations, the United States secured the following key objectives:

- Grant eligibility will be determined on the basis of debt sustainability. As a result, grants are expected to total approximately a third of IDA assistance;
- The results measurement framework will be expanded to improve country outcomes and institutional accountability;
- Information disclosure concerning the Bank's activities and policies will be expanded; and
- The focus on private sector development will be improved.

IDA grants are to be extended on the basis of a country's debt vulnerability. In 2005, IDA provided just over $2 billion in grants. This was up from $1.6 billion in 2004 and comprised more than 23% of total 2005 assistance. IDA recipient countries will also benefit from the recently approved Multilateral Debt Relief Initiative, which becomes effective for 18 countries on July 1, 2006.

Note: Internet website: www.worldbank.org/ida; World Bank Fiscal Year: July 1 – June 30

Measuring Results

IDA's new results-oriented approach will increase the effectiveness of IDA's development project and programs, specifically: (1) *country outcomes* will be tracked using 14 country outcome indicators; and (2) output indicators will be put in place measuring *IDA's contribution to country outcomes* in project quality and specific outputs such as health and education. To begin implementation of the initiative, an interactive website was launched on July 1, 2005, in order to track the progress of the Results Measurement System initiated by the IDA-14 agreement.

- The $110 million Northern Mountains Poverty Reduction Project in **Vietnam** has helped bring clean water to mountain villages and improve irrigation. Water supply works now serve over 170 families in one mountain village – eliminating the 7km daily trek for clean water that families endured before the project. In addition, the completion of two irrigation systems has resulted in a doubling of the region's rice and maize output from 3 tons of rice per hectare before the project to an average of 6 tons per hectare.

Good Governance and Fighting Corruption

- The World Bank has suspended disbursement to **Chad** in response to the amendment of the Petroleum Revenue Management Law which allocates petroleum revenue to priority sectors such as health and education.

- The Bank's Country Assistance Strategy with **Georgia** focuses on improving governance, a key priority for the government. The key objectives of World Bank engagement are to focus on areas that most affect the business climate; reduce opportunities for high-level corruption; and institutionalize the anti-corruption effort to ensure its resilience over time.

Private Sector Development and Trade

- IDA is working with the authorities in **Armenia** to improve competition by liberalizing trade in air and rail services and enhancing the regulatory framework for utilities.

- For **Mozambique,** IDA approved a $20 million project in December 2005 to help develop ecotourism in conjunction with policies and strategies aimed at improving natural resource management.

- The **Africa Action Plan**, introduced this year, recognizes that trade is the primary way that countries will achieve the sustained growth necessary to alleviate poverty. The Plan aims to help countries identify and fix supply side constraints such as farm-to-market transport, customs processes, and meeting market standards that impede competitiveness and prevent African countries from realizing gains that are anticipated from the Doha round.

Program Assessment Rating Tool (PART)

The PART evaluation conducted by OMB in 2003 gave IDA high scores in Management (100%) and Planning (71%) but a lower score in identifying purpose (60%). The evaluation stated that it was difficult to determine IDA's effectiveness given the lack of a system to sufficiently measure, monitor, and evaluate overall results and, accordingly, gave IDA a low rating (33%) for results/accountability. The overall performance rating was "Adequate" and the evaluation noted that IDA manages its programs well on a project-specific level. Successful implementation of the IDA-14 results measurement system should give IDA better tools to track its progress in meeting development objectives across the board.

Note: Internet website: www.worldbank.org/ida; World Bank Fiscal Year: July 1 – June 30

World Bank Group

International Bank for Reconstruction and Development (IBRD) — Request: $0.0

The IBRD lends at market-based rates to lower-middle and middle-income countries to finance poverty reduction investments and economic policy reforms. The IBRD is an AAA-rated borrower in international financial markets and issues bonds to fund the bulk of its lending operations. However, a substantial part of the IBRD's loanable resources comes from its retained earnings and the flow of repayments on outstanding loans. The last general capital increase of the World Bank was agreed to in 1988, and the United States paid the last installment of its subscription to the IBRD's capital in FY1996.

Key Facts

- In terms of voting rights, the United States is the single largest shareholder in the IBRD with 16.4%.
- The IBRD made new loan commitments of $13.6 billion in 2005, bringing its cumulative lending commitments to $407 billion.
- During 2005, 21% of IBRD lending went for transportation, energy, and mining; 26% for law, justice, and public administration; 15% for education and health; 15% for finance and industry/trade; and 22% for agriculture, fishing, water, and sanitation.
- In 2005, 37% of new lending was for Latin America; 26% for Europe and Central Asia; 13% for East Asian and Pacific; 9% for the Middle East and North Africa; 15% for South Asia; and less than 1% for Africa.
- IBRD allocable net income for 2005 was $1.252 billion. Of this, $590 million was transferred to reserves; $52 million to the surplus account; $400 million to IDA; and $210 million to the HIPC Trust Fund.
- IBRD capital adequacy improved in 2005, as measured by the equity-to-loans ratio which was 31.4%, a full 2 percentage points higher than the 29.4% at end 2004.

Supporting U.S. Policy Priorities

Managing for Results

In order to institute the measurable results at the institutional level, the IBRD is in the first stages of developing a system to measure performance for each Vice Presidential Unit. Once implemented, administrative budget allocations at the Bank will be guided on the basis of performance.

On the country level, the results-based Country Assistance Strategy (CAS) pilot has been a great success. This means that all country strategies now provide a holistic view of what World Bank engagement will accomplish. The pilot was so successful that all new CASs as of Jan 1, 2005 will be results-based.

- **Morocco's** CAS, approved in April 2005, lays out specific tasks in order to accomplish the over arching objective of an improved investment climate. Examples of specific results called for in the CAS include: decreasing the banking sector's non-performing loans, and reducing job market rigidity, one of the indicators in the "Doing Business" report.

Note: Internet website: www.worldbank.org; World Bank Fiscal Year: July 1 – June 30

- A $54.35 million loan to **Brazil** to **improve incomes of rural poor** through basic social and economic infrastructure was completed in July 2005. As a result of the project, the number of households in the project area lacking sanitation facilities declined by 20%. The installation of 183 rural electricity facilities benefited 4,140 families in the project area in the state of Bahia by powering homes, schools, streets, small businesses/shops, agro-processing units and pumps. The project also helped mobilize and strengthen 3,000 community groups to participate in the selection, preparation and operation and maintenance of subprojects.

As a result of the success with the measurable results initiative, portfolio performance is improving with over 90% of all projects rated above satisfactory in FY05. In addition, quality-at-entry has improved to 92% in FY05 from 86% in FY04.

Private Sector Development and Trade

The Bank has emphasized the provision of financial and technical support on trade issues. Between FY1987 and 2004, the Bank approved about $38 billion for loans in trade-related areas, representing 8.1% of total Bank lending.

The Bank has helped advocate private sector development through its publications and research, as well.

- The Bank's extremely timely analysis of the **CAFTA-DR** was persuasive to a number of important stakeholders, emphasizing the benefits of the agreement to the countries in the region and significantly facilitating its adoption. The Bank will provide further support to CAFTA countries on improving competitiveness to take advantage of the trade opportunities that CAFTA-DR will present.

Good Governance

Recognizing that good governance is a critical prerequisite for private sector growth, World Bank made assistance available for **public sector governance and rule of law** in FY2005 totaling $2.83 billion.

- **In Argentina**, the Social and Fiscal National Identification System project yielded savings of $133 million by reducing fraud and tax evasion. The project helped reconcile fiscal and social data from federal and provincial government agencies, which promoted transparency in the use of public funds and enhanced public sector decision-making with more reliable data.
- In the **Philippines**, a project to develop mobile courts strengthened access to justice. These mobile courts have already released juveniles and adult detainees held without trial from congested jails and strengthened access to justice by socially excluded groups.

Note: Internet website: www.worldbank.org; World Bank Fiscal Year: July 1 – June 30

World Bank Group

Multilateral Investment Guarantee Agency (MIGA)

Request: $0.0

The Multilateral Investment Guarantee Agency (MIGA), a member of the World Bank Group, was chartered in 1988 to encourage foreign direct investment by providing investment insurance (guarantees) against non-commercial risks (i.e., expropriation, transfer restrictions, currency inconvertibility, and political violence) in developing countries. It provides political risk insurance products similar to the Overseas Private Investment Corporation (OPIC), and in some cases OPIC has re-insured and co-insured MIGA projects.

For FY2007, the Administration is not requesting any funding for MIGA.

Key Facts

- The United States is the largest shareholder in MIGA with 31,304 shares or nearly 16.5% of the voting power, at the end of 2005.
- United States investors account for 9.6% of MIGA's gross portfolio, and MIGA has issued a total of 161 contracts to U.S. investors for about $2.1 billion in coverage to support investment projects in developing countries. While it is difficult to accurately determine the amount of foreign direct investment (FDI) that MIGA projects facilitate, information submitted by the U.S. companies suggests that these projects have facilitated more than $7.6 billion of FDI. As of June 30, 2005, outstanding coverage for U.S. investors totaled $521.0 million.
- During 2005, MIGA issued 62 new guarantee contracts, totaling $1.2 billion in gross coverage. This represented only a small increase from the $1.1 billion in contracts the previous year despite recent increases in FDI flows to emerging markets. Twenty-one developing member countries benefited from these new MIGA guarantees. Twenty-four contracts were issued in IDA-eligible countries for $703.6 million, representing 57% of MIGA's gross issuance in 2005 in dollar terms.
- To date, MIGA has issued 773 guarantees worth $14.0 billion. MIGA's total gross exposure outstanding is $5.1 billion.
- MIGA paid two claims in 2005, totaling $1.54 million, to investors for losses in Argentina and Nepal. MIGA has paid three claims since its inception in 1988. The first claim, paid in 2000, was fully reimbursed by the government of Indonesia.

Supporting U.S. Objectives

Managing for Results

MIGA's success is broadly defined by the amount of foreign direct investment (FDI) that it is able to mobilize through the provision of political risk insurance. The economic success and development impact of individual projects are important, as well. The most recent report by MIGA's Independent Evaluation Group (IEG-M) showed that MIGA has been improving its procedures to assess ex ante the development impact of a sponsored project.

Note: Internet website: www.miga.org; MIGA Fiscal Year: July 1 – June 30.
All data are as of June 30, 2005 and refer to FY05 activities, unless otherwise noted.

Promoting Private Sector Development

MIGA emphasizes IDA-eligible countries and other countries in Africa, issuing guarantees for 24 projects in IDA-eligible countries in 2005 worth $703.6 million. This included ten new projects in Sub-Saharan Africa worth $323 million, 255% more than the amount in 2004. MIGA now has gross exposure of $827 million, or 16% of its portfolio, in Sub-Saharan Africa and $2.1 billion, or 42%, in IDA-eligible countries.

In 2005, MIGA issued coverage for nine projects supporting small and medium-sized enterprises, mostly in the financial sector with banks that cater to SME clients.

Technical Assistance and Advisory Services

In addition to guarantees, MIGA offers long-term technical assistance to help countries attract foreign investment and promote exports. MIGA assists countries in establishing investment promotion agencies and programs.

MIGA is playing a role in conflict-affected countries, most notably Afghanistan. It has cooperated with other members of the World Bank Group in helping to support the Afghan Investment Support Agency. MIGA has also set up the Afghanistan Investment Guarantee Facility to help mitigate risks for investors.

Information Dissemination

MIGA uses new technologies to disseminate information on investment opportunities and business operating conditions in developing member countries. Examples include FDIxchange, a free e-mail service that delivers customized information about investment opportunities to its users, and the Investment Promotion Network (http://www.ipanet.net), an online clearinghouse of investment opportunities and business information in emerging markets.

Promoting good governance and fighting corruption

MIGA has recently taken steps to improve its anti-money laundering/combatting terrorist financing (AML/CTF) procedures. It relies on thorough due diligence of its clients, and it will also be working with the International Finance Corporation (IFC) and using IFC's database subscription to check its prospective and future clients. MIGA may look at other options after it has some experience with the IFC system, but given its relatively small size, it may be more cost-effective to use the IFC's system.

Note: Internet website: www.miga.org; MIGA Fiscal Year: July 1 – June 30.
All data are as of June 30, 2005 and refer to FY05 activities, unless otherwise noted.

World Bank Group

International Finance Corporation (IFC) — Request: $0.0

The IFC is a member of the World Bank Group. Chartered in 1956, the IFC was created to promote private sector development, foreign investment, privatization, and efficient financial markets in developing countries. To this end, the IFC makes loans and equity investments in private sector projects in developing countries for its own account, mobilizes private capital alongside its own resources, and provides advisory and technical assistance services to advance the development of the private sector.

For FY2007, the Administration is not requesting any funding for the IFC.

Key Facts

- The United States is the IFC's largest shareholder, owning 23.7% of IFC's capital.
- The IFC is involved with private sector projects, and lends without a sovereign guarantee. Thus, the IFC is fully exposed to the commercial risks of its investments. For FY2005, IFC's net income totaled $2.02 billion, up strongly from the previous year's $993 million.
- In FY05, the IFC committed $5.35 billion in new investments in 236 projects. In addition, it mobilized another $1.1 billion in capital from other sources through the B-loan program (see below).
- At the end of FY05, IFC's committed portfolio totaled $19.3 billion (net of write-off adjustment and not including B-loans), consisting of $14.8 billion in loans, $3.3 billion in equity investments and $1.2 billion in guarantees and other structured finance products.
- In addition to its direct operations, IFC manages a syndicated (B-loan) program under which IFC co-finances projects with commercial banks and other financial institutions, thus enabling IFC to leverage its resources. At the end of end FY05, outstanding commitments under the B-loan program totaled $5.3 billion.

Supporting U.S. Policy Priorities

Managing for Results

The IFC recently set up a **Development Effectiveness Unit** (DE-Unit) that will monitor the results of IFC's investments and technical assistance and advisory services (TAAS). The DE-Unit is setting up a Development Outcome Tracking System (DOTS) that will define monitorable indicators for every project or TAAS assignment and that will enable continuous monitoring of development impact on a project or portfolio basis. After a period of monitoring through DOTS, the IFC intends to release a public Annual Report on Development Effectiveness.

Private Sector Development

The IFC focuses on promoting private sector development through specific investments and through the development of sound regulatory, supervisory, and legal frameworks for the private sector in developing countries. To highlight the importance of investment climate and to promote reform, the IFC together with the World Bank initiated the **"Doing Business"** project (http://www.doingbusiness.org), which has devel-

Note: Internet website: www.ifc.org; IFC Fiscal Year: July 1 – June 30 oped quantitative indicators concerning business regulations and their enforcement across 145 developed and developing countries that can be tracked and compared over time.

In 2005, the IFC approved $1.1 billion in funding **for micro, small and medium enterprises**, including $1.0 billion in investments in financial intermediaries. For example, the IFC extended a $30 million loan to NISP, an Indonesian bank, as part of the IFC's pilot **Small Enterprise Enhanced Lending Framework (SELF)**. The pilot includes grant-funded TA to help the banks in training personnel in micro and small enterprise lending technology and a grant-funded performance bonus system that will reward the banks' performance.

Encouraging Private Investment in Infrastructure

In 2005, the IFC extended a $40 million loan to Ghana's leading private cellular phone company to expand its network and services. **Ghana's** cell phone market is growing rapidly as the country leapfrogs its overwhelmed landline system. The IFC has a **municipal fund pilot program** to extend finance to sub-national entities and leverage private capital for these entities. An example was a partial credit guarantee in 2005 for a private bank loan to Guatemala City that will help support local transportation infrastructure.

Promoting Good Governance, Increasing Transparency and Fighting Corruption

IFC promotes **strong corporate governance** by its borrowers and beyond its direct client base. Corporate governance is an important component of the technical assistance provided through the IFC's private sector development facilities.

The IFC has led the World Bank Group in terms of aggressive monitoring of its clientele concerning **anti-money laundering/combatting terrorist financing** (AML/CTF) issues. It has introduced a computer screening system that uses two databases of international, national, and commercial watch lists to regularly screen all prospective and existing clients. In the future, all clients will be screened against both databases.

The IFC puts **project summaries and environmental impact assessments** for all projects in its pipeline on its website, which provides the public critical information on upcoming projects. The IFC's currently required disclosure period for environmental assessments, however, is not consistent with U.S. legislation.

The IFC has **proposed revising its disclosure policy** to broaden the range of materials that would be released, but it has not elected to disclose individual project results. The United States has pressed for the maximum disclosure of individual project results to the extent they do not include business sensitive materials.

The IFC's **Independent Evaluation Group (IEGI)** has updated its disclosure policy to publish all of its reports as they are distributed to the Board except for revisions to correct errors, protect information protected by disclosure agreements, and individual project evaluations.

Note: Internet website: www.ifc.org; IFC Fiscal Year: July 1 – June 30

Note: Internet website: www.ifc.org; IFC Fiscal Year: July 1 – June 30

Global Environment Facility (GEF) — Request: $56.25M

Launched in 1991, the GEF provides partial funding (largely grants) for projects that provide global environmental benefits and simultaneously make progress to reduce poverty and support sustainable development. The GEF also serves as a financial mechanism for UN environmental conventions on biodiversity, climate change, persistent organic pollutants and desertification. GEF is functionally independent (but legally a trust fund of the World Bank), with 176 member countries, and a 32-member governing board. By its charter, the GEF is highly focused in what it funds—providing assistance to only the parts of projects that demonstrate environmental benefits with global applications. Recipients pay for local benefits and thereby take greater responsibility for protecting their own environment.

For FY2007, the Administration is requesting $56.25 million towards an estimated $225 million total U.S. pledge to the fourth replenishment of the GEF, based on the policy commitments anticipated thus far in the ongoing negotiations. The final U.S. pledge could be higher or lower than $225 million. Pending the outcome of the negotiations, the Administration is also requesting $23.75 million for a new regional environment program in support of the Asia-Pacific Partnership on Clean Development and Climate in the Asian Development Bank. The relative balance of funding between the two proposals will depend on the final outcome of the GEF-4 replenishment negotiations and the judgment of the United States on where the funds could be most effectively used to do the most good for the environment. Authorization for GEF replenishments is provided by section 526(c) of Title V of Public Law 103-306.

Key Facts

- The U.S. basic share in GEF replenishments has been 21%, well above that in other MDB concessional windows (7-14%).
- Since its inception, GEF has approved over $6 billion in grants, leveraging over $20 billion in promised cofinancing to support more than 1700 projects in over 155 countries, and close to 6,000 small grants (up to $50,000) to NGOs and community groups in over 90 countries.
- The GEF's projects (on a cumulative basis) fall into seven categories:
  - Conserving biodiversity (35.9% of its portfolio)
  - Expanding clean energy production and efficient energy use (33.6%)
  - Cleaning up international waters and protecting fisheries (14%)
  - Phasing out ozone-depleting chemicals (3%)
  - Reducing persistent organic pollutants (POPs) (2.6%)
  - Promoting sustainable land use (2.6%)
  - Cross-cutting projects (8.4%)
- Top recipients are China ($454m), Mexico ($211m), Brazil ($188m), and India ($163m).

GEF-4 Replenishment

GEF-4 replenishment negotiations are currently taking place. The potential total GEF-4 commitment of the United States is substantially below the GEF-3 level ($430 million) because the GEF has not yet measured up to the standards of other international financial institutions. It was very slow to implement the reforms agreed in 2002 as part of the GEF-3 replenishment, and a number of key GEF-3 reforms remain uncompleted. In addition, there is not yet a consensus on the GEF-4 policy reforms needed to improve project quality,

Note: Internet website: www.gefweb.org; GEF Fiscal Year: July 1 – June 30 portfolio management, environmental safeguards, resource allocations, transparency, anticorruption efforts and the overall effectiveness of the GEF. However, the Administration is still prepared to pledge a substantial sum if it is justified by new reform commitments.

Supporting U.S. Policy Priorities

The third independent evaluation of the GEF concluded that GEF has produced significant but qualified results, particularly in climate change, the protection of biodiversity and the prevention of ozone depletion. However, it also found serious management problems:

- For example, 43 completed climate change projects are estimated to have directly and indirectly avoided 321 million metric tons of CO2 emissions. However, this was mainly due to eight projects in China. The bulk of the climate change projects do not appear to be directed towards achieving maximum impact and do not address major energy issues in many countries.
- The GEF has helped achieve the global goal of putting 10% of world's land area under protection. However, it is unclear whether these projects have actually improved biodiversity. More than half of the completed protected area projects reported few or no positive biodiversity impacts, and other projects reported possibly negative impacts. There are also questions about the financial sustainability of these kinds of projects.
- The current quality and availability of targets, estimates, calculations, monitoring and reporting are unacceptable. Lessons learned from closed projects are not being disseminated adequately. GEF is unable to assess and measure the cumulative effect of the benefits of GEF projects because information systems are outdated and incomplete, and there are not common indicators across all focal areas.

Program Assessment Rating Tool (PART)

The PART evaluation conducted by OMB in 2004 gave a rating to the GEF of "Results Not Demonstrated," in part because the GEF has not been able to develop acceptable program goals or collect data to determine whether it is performing.

Note: Internet website: www.gefweb.org; GEF Fiscal Year: July 1 – June 30

Inter-American Development Bank Group

Inter-American Development Bank (IDB) and the Fund for Special Operations (FSO) Request: $0.0

The Inter-American Development Bank Group is composed of the Inter-American Development Bank (IDB), the Multilateral Investment Fund (MIF), the Fund for Special Operations (FSO), and the Inter-American Investment Corporation (IIC). IIC is a legally separate corporate entity with its own charter. The primary goal of all the elements of the Bank Group is the reduction of poverty by promoting economic growth. The units of the group focus on different strategies or aspects of the primary goal, such as the FSO's concentration on the poorest countries in the region.

The United States co-founded the IDB in 1959. The Bank's primary lending window is the non-concessional Ordinary Capital (OC). In the last replenishment for the Bank (IDB-8) in 1994, the United States agreed to purchase shares of paid-in capital worth a total of $153.7 million, with subscriptions provided in six equal installments from 1995 through 2000. The Bank is a AAA-rated borrower in the international financial markets and issues bonds to fund the bulk of its OC lending programs.

The FSO is the concessional window of the IDB and focuses on economic development in the hemisphere's poorest nations: Bolivia, Guyana, Haiti, Honduras, and Nicaragua. The FSO makes concessional loans with interest rates of 1% to 2% and maturities of up to 40 years to help these countries address critical development needs. The FSO was established at the same time as the Bank in 1959. In 1998, after two years of negotiations, an agreement was reached on a U.S.-initiated proposal that allows a $7.5 billion program through 2008 that is being implemented at zero additional cost to the United States. Currently the FSO allocates $400 million for new commitments each year to the eligible countries on a performance-based method.

For FY2007, the Administration is not requesting any additional funding for the OC nor for the FSO.

Key Facts

- The United States is the largest historical contributor to the IDB and is the largest shareholder with 30% of both shares and votes in the institution. The United States is also the largest contributor to the FSO, providing over 50% of the total of funds pledged over the history of the Fund.
- In 2005, the IDB made new lending commitments of $7.0 billion and has made lending commitments totalling $143 billion since its inception.
- FSO made 20 new loans for a total of $409.5 million, bringing the cumulative through end 2005 to a total of 1,173 loans for $17.5 billion.

Supporting U.S. Policy Priorities

Making Assistance Effective and Measuring Results

Contingent Transfer Funds (CTF) Programs are income support programs where payment is tied to households meeting specific goals related to health or education, such as children's attendance at school. Studies have shown that associated indicators (years in school or children's height and weight) are positively correlated with CTF programs. IDB funded two such programs in 2005:

Note: Internet website: www.iadb.org; IDB Fiscal Year: January 1 – December 31

- **Mexico**: Consolidation and Expansion of the Oportunidades Human Development Program for $1.2 billion. The facility is aimed at improving access to education, health, and nutrition. Opportunidades (formerly called Progressa) is the flagship CTF program used as an example of how to do things right.
- **Argentina**: Support for Plan Familias 1 for $700 million. The project aims to strengthen and improve a CTF program first initiated during the financial crisis. A key component is institutional improvements to sharpen registry of participants, control of payments, monitoring and evaluation.

Performance Driven Loans (PDLs) set quantitative targets to achieve development goals and reimburse the borrower for expenditure when these targets are met. In 2005, the Bank approved two PDLs.

- **Colombia**: A PDL for the Expanded Program on Immunization (EPI) ($133.7 million). The EPI was set up in Colombia in 1978 to provide children between 0 and 5 years of age and other target groups with an ongoing vaccination program. The bank-financed program seeks to increase the equity and timeliness of the EPI. The bulk of the procurement (over 95%) will be to purchase vaccines and syringes.

Private Sector Development

The Board approved 14 private-sector operations in 2005 —6 direct loans and 8 guarantees -- totaling $583 million. Seven of the guarantees were under the $400 million **regional trade finance facilitation program** approved in 2004. Private sector projects included: airport development in **Ecuador**; electric network modernization in **Brazil**; two regional trade finance funds; and a **Dominican Republic** trade facilitation financing program.

A Private Sector Coordinator was selected in January 2005, with a three-year term, reporting directly to the President of the Bank and the Chairman of the Boards of Governors of the IDB and the IIC. The Coordinator completed a broad assessment of private sector operations in the IDB and the IIC, and has implemented a plan to streamline and improve private sector operations within the Bank Group.

Good Governance

During 2005, the IDB approved 22 projects for government reform, for a total of $1.1 billion, or 15% of the total volume of projects approved.

- **Peru**: Public Expenditure Quality Improvement Program for $200 million. The general objective of the program is to improve public management and expenditure by increasing the capacity to analyze and monitor regulation, budget, and public investment.
- **Bolivia**: Improve Efficiency of Public Management, an FSO project for $15 million. The goal of the project is to support policy measures to develop the institutional capacity needed to provide effective, efficient, and transparent management of public resources based on results.

Inter-American Development Bank Group

Multilateral Investment Fund (MIF) Request: $25.0M

The MIF, established in 1992 and administered by the Inter-American Development Bank (IDB), works directly with private sector and public sector partners to strengthen the environment for business, build the capabilities and skills of the workforce, and broaden the economic participation of smaller enterprises. MIF's ability to partner directly with NGOs and business groups, as well as government entities, has made it an important instrument for reaching out to a broad spectrum of groups in the development process. MIF projects incorporate a significant degree of counterpart financing with a goal of having 50% of project cost borne by local counterpart contributions. The MIF is providing highly-focused support for new private sector development and privatization in Latin America and the Caribbean through provision of technical assistance on regulatory and legal reforms, re-training the workforce, increasing productivity and competitiveness of financing vehicles and improving the efficiency of small businesses and microenterprises.

For FY2007, the Administration is requesting $25.0 million for the first of six installments of the MIF-II replenishment. Authorization is being requested for the United States contribution of $150,000,000 to the first replenishment of the resources of the Multilateral Investment Fund (MIF-II), subject to obtaining the necessary appropriations.

Key Facts

- The United States and Japan are the largest contributors. Each pledged $500 million of the original $1.15 billion fund. Negotiations for the first replenishment of MIF were completed in early 2005, with the United States pledging $150 million out of a total of $502 million, to be paid in six equal installments beginning in 2007. Japan pledged $70 million to MIF-II.
- Currently, the U.S. share of the MIF is 32.1% and upon completion of the MIF-II replenishment, the U.S. share will be 39.3%.
- In 2005, the MIF donors approved 130 technical assistance and investment projects totalling $114 million, of which $76 million was for 82 grant projects. Since its inception in 1992, the MIF has approved 791 projects for a total committed value of over $1 billion. Including counterpart funds, some $2 billion has been committed for MIF projects throughout the region.

Supporting U.S. Policy Priorities

MIF-II Replenishment

In January 2005, the MIF Donors agreed to replenish the fund starting in 2007. Five new countries will join MIF II and total pledges received were $502 million. The United States was successful in reaching its objectives of improving procurement policy, instituting a results-oriented project approach, increasing efficiency, and instituting a sunset clause to define the termination of the MIF. It was also successful in securing MIF- II grant funding at MIF-I historical levels (roughly 75% of all approvals).

- Procurement — the IDB adopted a new procurement policy in early 2005. The MIF-II agreement commits MIF to use the new policy.

Note: Internet website: www.iadb.org/mif; IDB Fiscal Year: January 1 – December 31

- Managing for Results – MIF is committed to working with the IDB's Office of Evaluation and Oversight (OVE) to adapt the Project Evaluability Assessment Tool for MIF projects, to review projects ex-ante for their evaluability and ex-post for their effectiveness, develop indicators for measuring project innovation, sustainability, contribution to private sector development, and disseminate lessons learned.
- Increasing Efficiency – MIF is committed to improve executing agency ability to measure results and to establish a monitoring system to manage project performance.
- Sunset Clause – The MIF II agreement runs until December 31, 2015 and may be renewed for no more than one additional period of up to five years.

Making Assistance Effective and Measuring Results

MIF is leading the IDB Group's effort on **remittances**, with 21 pilot projects for $52 million committed to date. MIF works with other IFIs in developing better measurement of these flows (estimated at $45 billion in 2005). Recent highlights include:

- $366,000 for an **El Salvador** project "Funding for Remittances and Rural Development"; $222,000 for a **Paraguay** project "Bringing Unbanked Remittance Recipients into the Formal Financial System"; and $198,000 for a **Guatemala** project "More than Remittances" focused on improving the efficiency of remittance management.

MIF is a leading supporter of **microfinance** in the region, with $150 million committed to 110 projects. Next steps include extending services into rural areas, leasing, securitization, mortgage finance, and other financial mechanisms to increase financial services for microenterprises and lower income individuals. Recent highlights include:

- $485,000 for a **Bolivia** project "Promotion of Microinsurance for Microentrepreneurs;" $1,430,200 for a **Colombia** project "Growing Micro, Small, and Medium-sized Enterprises thru Franchising;" $800,000 for a project in **Argentina** "Consolidating the Microfinance System with Support of FONCAP (Fondo de Capital Social)."

Private Sector Development

80% of MIF projects are undertaken in direct partnership with the private sector.

In 2005 MIF continued to finance projects to increase **SME access to credit** by developing financial institutions in rural areas, increasing the impact of worker remittances on development, and assisting bank and non-bank institutions to develop new credit vehicles such as factoring and franchising. MIF projects to support SME development ranged across all sectors, including agriculture, tourism, manufacturing, and services.

The IIC and the Multilateral Investment Fund strengthened ties to support **SMEs** signing an MOU in March 2004 to improve support for SMEs through the financial sector. In 2005 IIC and MIF collaborated on four loans to microfinance lenders in **Bolivia, Ecuador, El Salvador,** and **Nicaragua**.

The MIF continues to play a key role in the IDB's recently-launched **Business Climate Initiative** (BCI). MIF will fund diagnostic assessments of country investment climates, with clear recommendations for addressing issues raised in the assessments.

Improving Transparency

In order that lessons learned from projects are disseminated as widely as possible, MIF II will make public Project Performance Monitoring Reports and Project Completion Reports, which is a first for a multilateral development institution.

Note: Internet website: www.iadb.org/mif; IDB Fiscal Year: January 1 – December 31

Inter-American Development Bank Group

Inter-American Investment Corporation (IIC) Request: $ 0.0

The Inter-American Investment Corporation (IIC) was established in 1984 to promote private small and medium-size enterprises (SMEs) in Latin American and the Caribbean. Through a combination of direct loans to, and equity investments in, individual companies, lending through private local banks, and participation in regional equity funds, the IIC helps SMEs obtain affordable capital to start up, expand, or modernize their operations.

For FY2007 the Administration is not making any request for the IIC.

Key Facts

- The United States is the largest single shareholder in the IIC, with 25% of the total shares. The U.S. commitment in the first general capital increase, approved in December 1999, was for $125 million out of a total increase of $500 million.
- In 2005, the IIC approved 37 projects totalling $341 million. In 2005, IIC approved the Financial Intermediaries Program (FIP) aimed at increasing lending to financial institutions for on-lending to SMEs, approving $165 million of loans to financial intermediaries and $94m in guarantee and co-lending programs.
- Since its inception, the IIC has approved 388 projects, totalling $2.258 billion. Of these, 154 projects, representing $813 million, are under implementation. To date, the IIC has disbursed over $197 million for equity investments (directly to SMEs or financial institutions and also to SMEs through private equity funds).

Supporting U.S. Policy Priorities

Making Assistance Effective and Measuring Results

IIC has implemented a project evaluation system based on guidelines developed by the Evaluation Cooperation Group of the MDBs.

IIC's evaluation function includes project self-evaluation by IIC's investment officers and independent evaluation by the IDB's Office of Evaluation and Oversight (OVE).

In 2005 OVE provided two reports to the IIC's Board of Directors: the Third Independent Evaluation Report and the Action Plan for Enhancing Evaluability of IIC Program Initiatives and Business Plans. IIC is working with OVE, in the context of the Action Plan, to modify the IDB's ex post contract reporting to be applicable to private sector projects.

Private Sector Development

The IIC and the Multilateral Investment Fund strengthened ties to support SMEs signing an MOU in March 2004 to improve support for SMEs through the financial sector.

Note: Internet website: www.iadb.org/iic; IDB Fiscal Year: January 1 – December 31

- In 2005 IIC and MIF collaborated on four loans to microfinance lenders in **Bolivia, Ecuador, El Salvador, and Nicaragua.**
- **Latin American Agribusiness Development Corporation** – IIC participation of $6 million in the facility will help promote private sector investment and employment in the rural areas of Latin America and the Caribbean through investments in export-oriented agribusiness.
- In **Brazil**, the IIC agreed to work with Banco Sofisa S.A. in helping small and medium-sized companies secure financing by guaranteeing up to 50% of loans booked by Sofisa, a local bank that is almost exclusively focused on SMEs.

Improving Transparency and Fighting Corruption

IIC adopted a new Information Disclosure policy in October 2005, effective December 1, 2005. The policy considerably expands the scope of information to be disclosed to the public and establishes the principle that all information concerning the corporation and its activities should be publicly accessible unless there is a compelling reason for confidentiality.

To enhance implementation efficiencies and consistency of action within the IDB Group, the Board approved the IIC's participation in the IDB's oversight committee on fraud and corruption when allegations of fraud or corruption are considered.

Note: Internet website: www.iadb.org/iic; IDB Fiscal Year: January 1 – December 31

Asian Development Bank Group

Asian Development Bank (AsDB) Request: $23.75M

The Asian Development Bank was established in 1966. The AsDB's hard loan window, referred to as Ordinary Capital Resources (OCR), lends at market rates to promote sustainable economic development, poverty reduction, private sector development and sub-regional cooperation in Asia. The AsDB provides loans, guarantees, cofinancing to governments and private sector financing. AsDB lending is financed by bond issues on the international financial markets and by repayments and interest earnings on existing loans. The AsDB has a AAA credit rating.

The AsDB is funded through periodic capital increases and through capital market operations. In FY2000, the United States completed making payments in support of its subscription to the Bank's last general capital increase (GCI-4).

For FY2007, the Administration is requesting $23.75 million for a new regional environment program at the AsDB to achieve the aims of the Asia-Pacific Partnership on Clean Development and the Climate. This request is contingent upon the eventual outcome of the GEF-4 replenishment negotiations.

Key Facts

- The United States is a founding member of the AsDB. The United States and Japan are the largest shareholders; each has a 15.7% share in the institution and 12.9% of the vote.
- In 2005, the AsDB approved approximately $6.24 billion from the OCR window, including private sector assistance amounting to $830 million for loans, equity investments, and guarantees. The Bank mobilized approximately $7.5 billion in co-financing from official and commercial sources and nearly $200 million for 299 technical assistance projects.
- Of the AsDB's 65 members, 37 are developing member countries eligible for assistance from the AsDB.

Asia-Pacific Partnership on Clean Development and the Climate

The new multi-country partnership (Australia, China, India, Japan, South Korea, and the United States) was launched to facilitate the deployment of cleaner technologies in partner countries to support poverty reduction, enhance economic growth, improve energy security, reduce pollution for improved human health and a clean environment, and reduce the greenhouse gas intensity of partner countries' economies. The FY2007 request in support of the Asia-Pacific Partnership is contingent upon the eventual outcome of the GEF-4 replenishment negotiations, at which a more satisfactory agreement on the outstanding policy issues than is currently anticipated could affect the eventual balance of funding between the two requests (GEF and AsDB). The form of the new program will likely be a bilateral or multilateral fund or co-financing arrangement with the AsDB, depending on the outcome of discussions with other donors, regional partners, and the AsDB. This amount is separate from and in addition to the United States commitment of $52 million requested by other U.S. agencies in support of the Partnership.

Note: Internet website: www.adb.org; AsDB Fiscal Year: January 1 – December 31

Supporting U.S. Policy Priorities

Managing for Results

A **new staff incentive system** was approved (in 2005) to attract and retain high caliber people and ensure that rewards are allocated for achieving development outcomes, instead of the quantity of loans approved.

Private Sector Development

With strong U.S. support, the Bank has significantly expanded and diversified the scope and scale of its private sector activities. The Private Sector Operations Department (PSOD) has initiated new projects in the area of **workers remittances, local currency financing, trade finance facilitation, and housing finance**. In 2005, 17 private sector loans, equity investments, and guarantees totaling $753 million were approved compared to 16 private sector operations totaling $532 million in 2004.

In June 2005 the Bank approved a $5.5 million investment in the **Afghanistan Renewal Fund**. The project should help attract private investors, strengthen the financial sector, and catalyze investment in small and medium enterprises.

In October 2005 the Bank made a $1 million equity investment in the **Small Business Guarantee and Finance Corporation** to help establish a credit information bureau that will enable small and medium businesses to build up a credit history to access credit in the Philippines.

Good Governance and Fighting Corruption

The United States has been the leading voice at the AsDB to press for **stronger internal controls**. The Office of General Auditor has undertaken reviews of key institutional issues, such as the staff retirement plan, administrative expenses transactions, internal procurement, loan covenant compliance, and selected loan disbursement and borrowing transactions, with the objective of upgrading institutional effectiveness.

The United States has advocated strongly for internal procurement and consulting rules reform and urged the AsDB to bring its procurement rules and **procedures in line with international best practice standards**, such as those of the World Bank.

The Bank has put in place a **new independent accountability mechanism** to ensure it is responsive to the queries and concerns of civil society and, specifically, to those persons adversely impacted by AsDB projects.

Note: Internet website: www.adb.org; AsDB Fiscal Year: January 1 – December 31

Asian Development Bank Group

Asian Development Fund (AsDF) Request: $115.3

Since 1973, the Asian Development Fund (AsDF), which is the AsDB's concessional lending window, has been providing financing and policy advice to the poorest countries in the Asia-Pacific region. AsDF funds are primarily used by those member countries with a low per capita gross national product and limited debt-repayment capacity in areas such as health, environment, education, and social protection, in keeping with the Bank's mandate on poverty reduction. AsDF operations are financed by periodic financial replenishments from donors, as well as repayment inflows and annual contributions from the net income of the AsDB.

For FY2007, the Administration is requesting $115.3 million for the second installment of a four-year commitment under the agreement of the eighth replenishment of the AsDF (AsDF-9). The U.S. total four-year commitment for AsDF-9 of $461 million leverages itself over 15 times, generating a $7 billion replenishment, which will provide $1.47 billion in grant assistance.

Key Facts

- The United States is a founding member of the AsDF. The United States' AsDF-9 commitment accounted for 13.7% of total donor contributions, following Japan (35%) which is the largest contributor to AsDF.
- In 2005, the AsDF approved 40 loans for $1.4 billion and nearly $250 million in grant assistance. The key sectors of AsDF were: multisector projects (44%); agriculture and natural resources projects (17%); transport and communications (12%); and water, sanitation and waste management (9%).
- Since its inception, the AsDF has made total commitments of over $30 billion.
- Currently, 29 countries are eligible to receive AsDF resources. The United States has consistently advocated that only the neediest countries that do not have access to other resources, such as private capital, should have access to AsDF resources. By decision of the AsDF donors, neither China nor India has access to AsDF funds, because of the large size of their economies and their access to other sources of financing, including capital markets.

Supporting U.S. Policy Priorities

AsDF-9 Replenishment

The United States achieved key policy objectives in the AsDF-9 replenishment discussions that concluded in May 2004:

- For the first time, the AsDB agreed to implement a 21% grants window in AsDF-9 to enable poorer countries access funds to boost economic development. A total of $246.6 million (16.8% of the total $1.47 billion for AsDF-9) has been approved for grants to date.
- As part of its institutional reforms, AsDB is taking positive steps to improve its public communications and disclosure policies to increase transparency. A new public communications policy is in place and information on project preparation is more readily accessible on the AsDB's website.

Note: Internet website: www.adb.org; AsDB Fiscal Year: January 1 – December 31

- As a first step to enhancing development effectiveness, AsDB launched the Managing for Development Results (MfDR) Unit in April 2005 to oversee putting in place development indicators for borrowing countries and improving monitoring, measuring, reporting, and evaluation of AsDB projects.

Measuring Results

At the country level, **new country strategy and programs (CSPs) will now be results-based**, which means more monitoring and evaluation processes and dissemination of best practices and lessons learned.

- As of December 2005, the AsDB Board of Executive Directors had endorsed five results-based CSPs for **Bangladesh, Bhutan, Mongolia, Nepal and the Philippines** and are planning for five more in 2006 (for Fiji Islands, Indonesia, Papua New Guinea, Uzbekistan and Vietnam).
- The October 2005 CSP for **Bangladesh** included a results framework for the impact of the AsDF's program and a joint results framework that reflects the joint strategy of the AsDF, the UK, Japan, and the World Bank.

Supporting Good Performers and Fighting Corruption

AsDF's **performance-based allocation (PBA) system** was approved in December 2004 and went into effect in January 2005. It was further strengthened by increasing the governance weight (from 30% to 50%) in measuring country performance.

- In **Mongolia**, the AsDB Board of Executive Directors approved a $10 million financial sector and governance project in November 2005 to build capacity among the regulators and also strengthen the rules for overseeing the financial sector. This project also includes a $1 million technical assistance element.
- Through the Technical Assistance program, advisory services are being provided to **Bangladesh's** Anticorruption Commission to formulate rules to tackle corruption in the country and to strengthen its business process services.

Improving Transparency

In April 2005, the AsDB Board of Executive Directors approved a revised Public Communications Policy, part of the overall reform agenda aimed at achieving demonstrable improvements in effectiveness. The new policy provides for improved access to documents and greater openness with stakeholders.

The United States will continue to press the Bank to take further measures to increase the transparency of its internal and external operations, including release of Board minutes, release of policy and strategy documents and public sector loan proposals prior to Board consideration, and disclosure of more information on project outputs and outcomes during execution and upon completion.

Program Assessment Rating Tool (PART)

OMB completed a PART examination of the AsDF in 2005. The AfDF received high scores in Program Management (89%) and Program Purpose and Design (80%) but lower scores in Strategic Planning (62%) and Program Results and Accountability (25%). The overall assessment rating was "Results Not Demonstrated," largely because the proposed reforms to improve development effectiveness are under implementation and the indicators to measure results are in the process of being developed.

Note: Internet website: www.adb.org; AsDB Fiscal Year: January 1 – December 31

African Development Bank Group

African Development Bank (AfDB) — Request: $5.02M

Established in 1964, the AfDB is the non-concessional lending window of the African Development Bank Group. The AfDB's mission is to promote sustainable economic growth and reduce poverty in Africa. It lends at market-based rates to creditworthy, middle-income African countries with limited access to capital markets in order to finance key poverty reduction programs and economic policy reforms. The AfDB's lending operations are financed by bond issues on the international financial markets – the Bank is a AAA-rated borrower – and by its international investment portfolio, and internally generated funds.

The United States has been a member of the AfDB since 1983. In 1998, the Bank's shareholders agreed on a 35% general capital increase (GCI-5) to strengthen financial ratios and improve corporate governance. The agreement also increased the influence of the non-regional shareholders, including the United States. The total amount of the capital increase was approximately $7 billion, the U.S. share of which is 5.8%. The total U.S. paid-in capital commitment is $40.8 million spread over 8 years, or $5.02 million per year.

For FY2007, the Administration is requesting $5.02 million for the final of eight annual U.S. payments under GCI-5. This U.S. payment leverages other donors' commitments under GCI-5 of more than $900 million per year.

Key Facts

- The United States is the largest non-African shareholder, with 6.6% of the total votes, and the second-largest shareholder overall. Nigeria is the largest shareholder with 9.0% of the total votes.
- In 2005, the AfDB approved a total of $1.1 billion in loans, grants, investments, and guarantees, as well as another $400 million in HIPC debt reduction. The key sectors of AfDB's loans and grants were:
  - power supply 36%;
  - inance 28% (includes on-lending to private sector); and
  - public sector management 13%.
- The dominant AfDB event of 2005 was the transparent and orderly election of Mr. Donald Kaberuka, the former Rwandan Finance Minister. He will serve as the Bank's new President for a five-year once renewable term. He is working to enhance the Bank's focus on results and improving the business climate needed to promote private sector-led economic growth.

Supporting U.S. Policy Priorities

Managing for Results

In 2005, the Bank rolled out a pilot of its **Balanced Scorecard** of six strategic themes and 35 performance indicators. It is expected to be implemented Bank-wide in 2006.

The Bank has also developed **external performance indicators** to measure its contribution toward attainment of the Millennium Development Goals and specific country objectives.

All public and private sector projects are now designed with a matrix of **project results indicators**.

Note: Internet website: www.afdb.org; AfDB Fiscal Year: January 1 – December 31

Private Sector Development

- A $10 million partial guarantee to **Kenya** approved in 2005 will provide critical technical and marketing assistance to at least 400 women entrepreneurs and strengthen their access to finance on more affordable terms. The project will generate an estimated 500 new jobs and is serving as a pilot that could be replicated elsewhere on the continent.
- A $50 million equity investment in the **Emerging Markets Partnership (EMP) Africa Fund** approved in 2005 aims for the following outcomes by the year 2010, to: (1) increase the private investment to GDP ratio in Africa from 20% in 2004 to 15%; (2) mobilize investments worth $4 billion; and (3) create 32,000 jobs across the continent.

Good Governance and Fighting Corruption

In 2005, the AfDB Board of Executive Directors approved the establishment of a new **Anti-Fraud and Corruption** Unit. The accompanying whistleblower protections for staff are in the final stages of development.

Also at U.S. urging, the Bank is now implementing the first phase of the **COSO internal controls framework** (on financial reporting) to enhance corporate efficiency and effectively manage and control internal risks.

The Bank has set up an **anti-money laundering group** to tackle systematically anti-money-laundering and terrorist financing issues. In 2006, it is also preparing a Strategy on Money Laundering and Terrorist Financing.

Improving Transparency

Prospective project briefs for public sector projects are disclosed at least six months prior to presentation to the Board of Executive Directors, while all draft policy papers and country strategy papers are released via the AfDB website at least 50 days prior to Board presentation.

The AfDB also makes available on its website environmental assessments for projects that could have a significant impact on the environment.

In response to U.S. urging, the AfDB has agreed to publicly release the highlights of Board of Executive Directors' discussions.

Note: Internet website: www.afdb.org; AfDB Fiscal Year: January 1 – December 31

African Development Bank Group

African Development Fund (AfDF) Request: $135.7M

The AfDF began operations in 1974 as the concessional affiliate of the African Development Bank Group. When it does not provide grant financing, it provides loans on highly concessional terms (50 years maturity, including 10 year-grace period; 0% interest, 0.75% service charge and 0.50% commitment fee) to Africa's poorest countries. AfDF financing supports investments in health, education, agriculture, water supply and sanitation, and infrastructure needed for poverty reduction, and promotes basic economic policy and institutional reforms needed for sustainable economic growth and development. AfDF operations are financed primarily by periodic financial infusions from donors (replenishments), as well as repayment inflows and annual contributions from the net income of the AfDB.

For FY2007, the Administration is requesting $135.7 million for the second installment of a three-year commitment under the agreement for the tenth replenishment of the AfDF (AfDF-10). The U.S. total three-year commitment for AfDF-10 of $407 million leverages itself more than ten-fold, generating a total $5.4 billion total replenishment, which provides $1.8 billion per year for grant and lending operations.

Key Facts

- The United States is the second-largest historical contributor to the Fund (after Japan), having paid more than 12% of the total cumulative contributions as of end September 2005. However, in the current AfDF-10 replenishment, the U.S. share fell to 8.5%.
- In 2005, the AfDF approved loans and grants totalling $1.4 billion and an additional $614 million in HIPC debt relief. Lending to critical sectors constituted 80% of the AfDF's financing:
  - transport sector 21.4%;
  - agriculture and rural development 21%;
  - social sector operations (education and health) 18%; and
  - water supply and sanitation 20%.
- 40 African countries are eligible for AfDF financial support, which has amounted to over $20 billion since 1974.

Supporting U.S. Policy Priorities

In the *AfDF-10 replenishment*, the United States secured key policy objectives:

- A country's financing terms being determined by debt sustainability with grants being expected to total more than one-third of AfDF total assistance;
- Enhanced AfDF development effectiveness with measurable results on the ground;
- Improved focus on private sector development;
- New capacity to assist post-conflict countries in clearing arrears to the AfDB group; and
- Expanded information disclosure of the Bank's activities and policies.

AfDF grants are now to be extended on the basis of a country's debt sustainability. In 2005, the AfDF provided nearly $500 million in grants. This was up from $330 million in 2004 and comprised more than 35% of total

Note: Internet website: www.afdb.org; AfDB Fiscal Year: January 1 – December 31

2005 assistance. AfDF recipient countries will also benefit from the recently approved Multilateral Debt Relief Initiative. AfDF management has been working closely with donors in order to provide debt relief retroactive to January 1, 2006.

Measuring Results

All AfDF operations now contain results-based matrices summarizing expected or targeted impacts and their timeframe, and the critical assumptions or risk factors to be monitored. Results-based Country Strategy Papers are now required for all AfDF countries, according to guidelines which the United States had a large role in shaping. Furthermore, the Bank has recently implemented a new Supervision Format to guide Bank staff to focus on results. Examples approved in 2005 include:

- **Mali's** $22 million project for the Baguineda Irrigation Intensification Scheme will provide: 1) literacy courses and training in production, management and marketing for 5,500 people; and 2) concrete production targets in rice, tomato, onion and maize.
- **Uganda's** Farm Income and Forest Conservation project will increase annual household incomes from vegetables to about $610, construct 16km of market access roads, and train 7,000 farmers.

Promoting Private Sector Development and Good Governance

- **Mozambique's** Financial Sector Technical Assistance Program approved in 2005 aims to strengthen the country's financial system to enhance its contribution to economic growth. It will provide technical assistance to help the Government reform its banking, insurance, and pension systems, as well as implement its anti-money laundering legislation.
- A $3.5 million grant to **Mozambique** approved in 2005 will help establish six one-stop shops to improve service delivery through decentralization and restructuring for: identification cards; tax and social security services; notary services; registration certificates; and business licensing.
- **Ghana's** $25 million export market and quality awareness program approved in 2005 aims to increase export earnings from non-traditional agricultural products. It is designed to improve supply chain efficiency and producers' competitiveness in export markets by enhancing productivity, promoting export marketing, improving infrastructure, and building capacity.

Natural Disaster, Emergency Assistance, and Post-Conflict

Tsunami: Within one month of the tsunami, AfDB had approved two $500,000 disaster assistance packages to assist the Seychelles and Somalia recover from tsunami-related damage to coastal areas and ports.

Drought: In late 2005, the AfDB provided $500,000 each to five southern African countries to provide emergency assistance to drought-affected communities.

PCCF: In response to strong U.S. leadership, the Bank established the new Post-Conflict Country Facility (PCCF) in 2004. Thus, the Bank now has the capacity to help countries clear their arrears to the Bank Group — in conjunction with sister IFIs — in order to regain access to its assistance in a more coherent and timely manner.

Program Assessment Rating Tool (PART)

OMB completed a PART examination of the AfDF in 2003. The AfDF received high scores in Program Management (100%) and Program Purpose and Design (80%), but lower scores in Strategic Planning (63%) and Program Results (33%). The total program score was 59% with an overall rating of "Results Not Demonstrated."

Note: Internet website: www.afdb.org; AfDB Fiscal Year: January 1 – December 31

European Bank for Reconstruction and Development (EBRD) — Request: $0.0

The EBRD was created in 1991 to foster the transition to open market-oriented economies by promoting private sector development, foreign investment, privatization, and efficient financial markets in Central and Eastern Europe and the countries of the former Soviet Union. The Bank's countries of operation are expected to be "committed to and applying the principles of multiparty democracy, pluralism, and market economics." The Bank also has a mandate to promote environmentally sound and sustainable development.

For FY2007, the Administration is not requesting any funding for the EBRD.

Key Facts

- The United States is the single largest shareholder in the EBRD with a 10% share.
- Since its inception, the EBRD has financed approximately $35.8 billion in loans and equity investments, contributing to investments in the region worth over $111 billion. In 2005, the EBRD committed $5.1 billion for new projects and disbursed $2.6 billion[1].
- The EBRD's focus on private sector development continues: 74% of its cumulative finance (and 76% of new business in 2005) is invested in private sector projects, well over the charter requirement of 60%. EBRD develops the private sector though loans and equity investments in private businesses and by mobilizing private capital alongside its own resources.
- The EBRD also provides loans for projects in the public sector, with and without sovereign guarantees, to promote development of market-oriented economies through commercialization and/or privatization of state-owned enterprises and public utilities or the restructuring of municipal services. The EBRD pursues its objectives through project finance operations (rather than budget support to governments), helping to ensure financial sustainability – that the client's revenues can service debt and provide a return on investments made.
- In 2004, eight of the EBRD's countries of operation, which now have open market-oriented economies, joined the European Union. Two other countries (Romania and Bulgaria) are expected to join in 2007, and Croatia has begun accession negotiations.

Supporting U.S. Policy Priorities

Managing for Results

The EBRD monitors each project's transition impact (1) prior to financing, (2) during project implementation, and (3) after project conclusion. In 2005, 85% of new projects had a "potential transition impact" rating of satisfactory, good, or excellent; this was above the official Bank target of 75%. During project implementation, 54% of ongoing projects are achieving substantial transition impact when measured on both potential transition impact and risk parameters, just below the 55% target. Of projects completed between 1996 and 2005, 77% were rated either Highly Successful or Successful in achieving their transition goals.

[1] Results reported as of 12/31/05, based on the 2005 year-end exchange rate of US$1.18 / 1.00.

Note: Internet website: www.ebrd.com. EBRD Fiscal Year: January 1 – December 31.

Promoting Private Sector Development

The EBRD has worked with the World Bank to conduct the Business Environment and Enterprise Performance Survey (BEEPS) in 1999, 2002, and 2005. The latest round covered nearly 10,000 firms across the EBRD's 26 transition economies. The results of this survey are in the EBRD's latest Transition Report.

Micro, Small, and Medium-Size Enterprise Development

With U.S. bilateral support, the EBRD has helped establish and develop a **network of microfinance banks in South-East European countries** and several other countries of operation, including **Ukraine**, and has committed over $175 million in on-lending funds. As a result, the U.S.-supported program has leveraged a total cumulative loan volume of approximately $4.2 billion with over 700,000 loans disbursed in 13 countries with an average loan size below $6,000. In the process, the Facility has financed the training of over 3,500 loan officers. A similar program for **Russia**, with multilateral donor support, has resulted in $2.4 billion in cumulative loan volume, with over 270,000 loans disbursed to micro and small enterprises across 143 cities in Russia.

Promoting Good Governance and Fighting Corruption

With a strong push from the U.S. Director, the Audit Committee has strengthened the independence of key internal functions – compliance, evaluation, internal audit, and risk management.

The EBRD has scaled back operations in countries showing insufficient movement toward multiparty, pluralistic democracy. In the past year, it further curtailed operations in Uzbekistan.

Improving the Environment & Promoting Energy Efficiency

The EBRD seeks to improve environmental practices and energy efficiency in its countries of operation. Environmental assessments and public consultation are required for all environmentally sensitive projects. Such projects are expected to be in compliance with applicable regulatory requirements, include appropriate mitigation measures, and address relevant social issues (e.g., indigenous peoples and workers' rights).

Note: Internet website: www.ebrd.com. EBRD Fiscal Year: January 1 – December 31.

International Fund for Agricultural Development (IFAD) — Request: $18.0M

The International Fund for Agricultural Development (IFAD) was established in 1977 as a multilateral financial institution focused on promoting rural agricultural development in poorer countries. Nearly 75% of the world's 1.2 billion poorest people live in rural areas, largely as small-scale producers and subsistence farmers. IFAD's specific mandate is to increase their productivity and incomes, improve their nutritional levels and help integrate them into larger markets. IFAD seeks to design and fund innovative and appropriately scaled programs in such areas as agricultural production, rural finance and market development. IFAD is the only MDB that devotes all of its resources to combatting rural poverty. In 2005, IFAD's first President from an OECD country (Sweden) was elected for a second term.

Negotiations for the seventh replenishment of IFAD resources (IFAD-7) concluded in December 2005 with a target replenishment level of $800 million for the three-year period, 2007-2009. The United States pledged $54 million, a 20% increase over the U.S. contribution to IFAD-6 and 6.75% of the target replenishment level, and achieved commitment to significant policy reforms to increase the effectiveness of the institution.

For FY2007, the Administration is requesting $18.0 million for the first of three payments to IFAD-7. Authorization of IFAD replenishments is provided by section 1001 of Public Law 99-83.

Key Facts

- IFAD has 164 members and the United States is the largest shareholder. Based on pledges to the 7th replenishment, the U.S. accounts for over 14.2% of cumulative contributions and approximately 8.9% of voting power, followed by Saudi Arabia with 5.3%, Japan with 4.3%, Germany with 4.1%, the Netherlands with 3.2%, and France with 3.0%.
- Commitments in 2005 were $484.6 million for 31 new projects, of which $478.4 million were loans and $6.2 million project-related grants.
- To date, IFAD has financed over 707 projects in 115 countries and independent territories for total commitments of approximately $9.0 billion. These projects address such needs as agriculture and livestock development, micro-enterprise and rural finance, natural resource management, local capacity building, and gender mainstreaming.
- Over two-thirds of IFAD loan commitments are on concessional terms (40-year maturity, 10-year grace period, service charge of 0.75 percent per annum). The remainder is provided on intermediate or ordinary terms.

Supporting U.S. Policy Priorities

IFAD's Seventh Replenishment (IFAD-7)

The United States exercised leadership in IFAD-7 to obtain key policy reform objectives which respond to the findings of the independent external evaluation and advance the Administration's overall goal of improving MDB performance through results-oriented programs.

The IFAD-7 commitments build on the reforms achieved under IFAD-6 and include:

Note: Internet Website: www.ifad.org; IFAD Fiscal Year: January 1 - December 31

- An Action Plan, with clear timelines, milestones, and concrete measures of performance — to increase IFAD's impact through building its comparative advantage and improving operational quality and efficiency to deliver measurable results.
- Human resource management reform to get the right skills and incentives to support IFAD's mandate, making staff accountable for results.
- Strengthened performance-based allocation system — eliminating the fixed regional allocations and revising the formula to reflect IFAD's mandate to assist the rural poor — to help ensure that resources are allocated to those countries which can use them the most effectively.
- A debt sustainability framework, along the lines of IDA and the AfDF, that will provide higher levels of grants to the poorest and most debt vulnerable countries.
- Strengthened anti-fraud and corruption measures in a new policy that includes establishment of an investigative unit and whistleblower protection system, and stronger internal controls framework.
- Increased transparency measures under a disclosure policy that will be revised in 2006.

Managing for Results and Increasing Effectiveness

During 2005, IFAD took important steps to make its assistance more effective. In April, IFAD implemented **a performance-based allocation system** to allocate resources more effectively by rewarding better performing countries. IFAD submitted its first **results measurement framework** to the Executive Board and will report annually on its progress in improving the results and impact measuring system. A key activity in 2005 was to ensure that the desired first and second level impact indicators are incorporated into all project monitoring and evaluation systems.

- IFAD provided a $1.32 million grant to **FIDAMERICA**, **a Latin American network**, to establish an internet-based system for exchange of information and results among IFAD projects to systematize their development experiences, improve project impact, and enhance inter-project learning and knowledge sharing.

Private Sector Activities and Partnerships

In April 2005, IFAD approved a **private sector strategy** for achieving greater involvement of the private sector in IFAD programs. The strategy encourages policy dialogue to promote local private sector development, suggests ways to invest in operations to support local private sector development, and fosters partnerships with the private sector to leverage addition resources.

- A new $10 million project in **Georgia** will facilitate the access of Georgia's mainly small and medium-scale farmers to commodity supply chains, improving the competitiveness of agribusinesses and the associated supply chains, and strengthening the capacity of selected agricultural and financial institutions serving private-sector agricultural market activity.

Note: Internet Website: www.ifad.org; IFAD Fiscal Year: January 1 - December 31

North American Development Bank (NADBank) Request: $0.0

The North American Development Bank (NADBank), and its sister institution, the Border Environment Cooperation Commission (BECC), were chartered under the North American Free Trade Agreement (NAFTA) to address the serious environmental problems in the U.S.-Mexican border region. NADBank is funded equally by the United States and Mexico and started operations in FY1995. It provides financing (i.e., loans, guarantees, and grants) for environmental infrastructure projects that have been certified by the BECC and are located, in the U.S., within 100 km of the U.S.-Mexico border or, in Mexico, within 300 km of the U.S.-Mexico border.

For FY2007, the Administration is not requesting any funding for NADBank. Congress has appropriated the full $225 million in U.S. paid-in capital and authorized the full $1.275 billion in U.S. callable capital.

Key Facts

- NADBank was created with $450 million in total paid-in capital and $2.55 billion in callable capital, to be subscribed equally by Mexico and the United States. To date, Mexico and the United States have contributed a combined total of $348.8 million to NADBank.
- 90% of NADBank's capital is dedicated to financing environmental infrastructure projects in the border region. The remaining 10% is allocated to separately-operated domestic programs in each country that assist communities in adjusting to the displacement of workers caused by trade liberalization. The United States program is called the Community Adjustment and Investment Program (U.S. CAIP).
- In 2005, NADBank approved no loans and only $7.1 million in grants for environmental infrastructure projects. All the grants were for water conservation.
- Cumulative financing approved by NADBank for environmental infrastructure projects through December 2005:

Total loans	$ 104.6 million
Market rate loans	$ 70.6 million
Low-interest rate facility (LIRF) loans	$ 34.0 million
Total grants:	$ 84.0 million
Solid waste environmental program (SWEP) grants	$ 4.0 million
Water conservation investment fund (WCIF) grants	$ 80.0 million

- NADBank also administers EPA-funded Border Environment Infrastructure Fund (BEIF) grants for drinking water and wastewater projects. BEIF grants totaled $516.6 million through December 2005.

Supporting U.S. Policy Priorities

NADBank continues to face very difficult challenges that prevent it from fulfilling its original promise. Most importantly, it is seeking to do market finance in a sector that is almost always subsidized. In the United States, potential borrowers have access to the municipal bond market and to other subsidized finance sources such as EPA-funded state revolving funds for drinking water and waste water projects. As of December 31, 2005, only $24 million in lending has been approved for U.S. borrowers.

Note: Internet website: www.nadb.org: NADB Fiscal Year: April 1 – March 31

Making Assistance Effective

- As a result of its business process review, NADBank will be developing a more systematic approach to measure the results of its activities in the border region.
- **Cameron County Irrigation District Water Conservation Project** (Project cost: $11 million; NADBank financing: $4 million grant). A new pumping station completed in 2005 will significantly reduce energy requirements and improve water conveyance efficiency. Annual water savings are estimated at over 2,000 acre-feet/year and energy savings at over 700,000 kwh/year.

Transparency and Accountability

- Through technical assistance and a $469,019 loan, NADBank aided **Puerto Peñasco** in establishing a transparent, enforceable user fee system for residential trash collection, providing the resources for a first-time, financially sustainable, independent agency providing reliable sanitation service. (Project cost: $2.2 million.)
- In support of the **Mexicali, Mexico, Sanitation Program**, NADBank provided $70,000 in technical assistance to the utility, CESPM. The TA focuses on transparent financial reporting (including audited financial statements using generally accepted accounting standards) and planning/financial discipline. In April of 2005 Fitch ratings awarded an A credit rating (Mexican national scale) to CESPM and reflected some of the results of the TA in its credit rating report.
- **BECC instituted a new Performance Based Budgeting (PBB) system** on January 1, 2006. This will allow BECC to undertake detailed cost and outcome tracking, allowing it to determine the costs of both internal and external projects and to measure the efficiency and effectiveness of its programs.

Note: Internet website: www.nadb.org: NADB Fiscal Year: April 1 – March 31

Summary of Appropriations and Requests
Treasury International Programs

FY2005-FY2007 (in $)

	FY2005	FY2006		FY2007	
	Approp.	Total Request	Approp. [1]	Annual Commit.	Total Request
Multilateral Development Banks (MDBs):					
World Bank Group					
IBRD	0.0	0.0	0.0	0.0	0.0
IDA	843,200,000	950,000,000	940,500,000	950,000,000	950,000,000
MIGA	0.0	1,741,515	1,287,000	0.0	0.0
IFC	0.0	0.0	0.0	0.0	0.0
Global Environment Facility	106,640,000	107,500,000	79,200,000	56,250,000	56,250,000[3]
Inter-American Development Bank					
IDB	0.0	0.0	0.0	0.0	0.0
IDB/FSO	0.0	0.0	0.0	0.0	0.0
IIC	0.0	1,741,515	1,724,100	0.0	0.0
MIF	10,912,000	1,741,515	1,724,100	25,000,000	25,000,000
Asian Development Bank					
AsDB	0.0	0.0	0.0	23,750,000	23,750,000[3]
AsDF	99,200,000	115,250,000	99,000,000	115,250,000	115,250,000
African Development Bank					
AfDB	4,067,200	5,638,350	3,601,620	5,018,416	5,018,416
AfDF	105,152,000	135,700,000	134,343,000	135,700,000	135,700,000
European Bank for Reconstruction and Development	35,147,662	1,015,677	1,005,520	0.0	0.0
North American Development Bank	0.0	0.0	0.0	0.0	0.0
Int'l Fund for Agricultural Development	14,880,000	15,000,000	14,850,000	18,000,000	18,000,000
Total MDBs	1,219,118,862	1,335,328,572	1,277,235,340	1,328,968,416	1,328,968,416
Debt Restructuring:					
HIPC TOTAL, of which:	79,360,000		44,550,000[2]		
Bilateral Debt Reduction	79,360,000	99,800,000			182,799,000
HIPC Trust Fund	0.0				
Tropical Forest Conservation Act (TFCA)	19,840,000		19,800,000		
Total Debt Restructuring	99,200,000	99,800,000[2]	64,350,000		182,799,000[2]
Other Accounts:					
Technical Assistance	18,848,000	20,000,000	19,800,000		23,700,000
TOTAL TREASURY INTERNATIONAL ACCOUNTS	1,337,166,862	1,455,128,572	1,361,385,340		1,535,467,416

Totals may not add due to rounding.

[1]Includes an across the board rescission of 1.0% (.01) applied to each line item, as required by P.L. 109-148, 12/30/05.

[2]The amounts allocated to each category of debt restructuring are determined according to relative program urgency and need.

[3]While the GEF and the AsDB combined FY2007 request is $80,000,000, the balance of funding between these two institutions will be decided after the conclusion of the GEF-4 replenishment negotiations.

Summary of Arrears
Treasury International Programs
FY2000-FY2006
(Budget Authority; in $)

	ARREARS						
	end-FY2000	end-FY2001	end-FY2002	end-FY2003	end-FY2004	end-FY2005	end-FY2006
Multilateral Development Banks (MDBs):							
International Bank for Reconstruction and Development							
International Development Association	32,140,000	62,275,000	73,015,000	78,540,000	120,727,880	327,527,880	337,027,880
Multilateral Investment Guarantee Agency	6,000,000	6,022,000	10,892,087	9,271,689	8,154,321	8,154,321	6,867,321
International Finance Corporation							
Global Environment Facility	204,200,000	203,937,600	210,937,600	171,585,848	140,668,364	141,528,364	169,828,364
Inter-American Development Bank							
IDB Fund for Special Operations							
Inter-American Investment Corporation	9,000,000	9,055,000	16,055,000	22,822,619	47,822,619	47,822,619	46,098,519
Multilateral Investment Fund	98,750,000	88,772,000	88,772,000	64,341,172	39,488,672	28,576,672	26,852,572
Asian Development Bank							
Asian Development Fund	100,017,050	128,175,450	133,158,400	138,908,527	98,339,611	102,139,611	118,389,611
African Development Bank	1,000,000	13,420	13,420	42,126	67,315	619,934	2,036,730
African Development Fund		220,000	220,000	10,849,144	16,789,221	29,637,211	30,994,211
European Bank for Reconstruction and Development				232,732	441,776	725,225	10,157
North American Development Bank							
International Fund for Agricultural Development		11,000	11,000	104.857	189,339	309,339	459,339
TOTAL BUDGET AUTHORITY	451,107,050	498,481,470	533,074,507	496,698,714	472,689,118	687,041,176	738,564,704