

*Treasury International Programs:  
The Economic Growth Agenda*

FY2006 Budget Request



Department of the Treasury

“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*

*Treasury International Programs:*

## ***Making Economic Growth the Priority***

The Multilateral Development Banks (MDBs), HIPC Debt Reduction and Treasury Technical Assistance programs play key roles in the effort to increase global economic growth, reduce poverty in the poorest countries and support U.S. foreign policy.

- *Our MDB agenda focuses on raising economic and productivity growth, linking concessional assistance to country performance, and measuring program results.*
- *The Heavily Indebted Poor Countries (HIPC) initiative provides substantial debt reduction for countries committed to economic, social, and governance reforms.*
- *Treasury's Technical Assistance program provides expert advisors to countries facing economic transition or security issues and that are committed to institutional reform.*

*Treasury International Programs:*

## ***The Multilateral Development Banks (MDBs)***

The Treasury Department is responsible for U.S. participation in the MDBs, which include:

### World Bank Group

- International Development Association (IDA)
- International Bank for Reconstruction and Development (IBRD)
- Multilateral Investment Guarantee Agency (MIGA)
- International Finance Corporation (IFC)

### Inter-American Development Bank Group

- Inter-American Development Bank (IDB)
- Fund for Special Operations (FSO)
- Multilateral Investment Fund (MIF)
- Inter-American Investment Corporation (IIC)

### African Development Bank Group

- African Development Bank (AfDB)
- African Development Fund (AfDF)

### Asian Development Bank Group

- Asian Development Bank (AsDB)
- Asian Development Fund (AsDF)

### European Bank for Reconstruction and Development (EBRD)

### Global Environment Facility (GEF)

### International Fund for Agricultural Development (IFAD)

### North American Development Bank (NADBank)

In 2004, \$49 billion in new lending and grants were approved by the MDBs. Major lending sectors included: private sector development; health, education, and other social sector infrastructures; basic infrastructure; and agriculture, environment, and other natural resources.

***Mandate:*** *The MDBs promote global economic growth and poverty reduction through a combination of market-rate loans, concessional-rate loans, grants and policy advice.*

***U.S. Shareholding:*** *The United States is the largest aggregate shareholder in the MDBs, commensurate with its economic size. The U.S. contributed \$1.4 billion to the MDBs in 2004.*

*Treasury's International Programs:*

## ***Multilateral Development Banks***

- Furthering Measurable Results
- Improving Debt Sustainability – Increasing Grants
- Enhancing Accountability:  
Transparency, Governance and Corruption
- Advancing U.S. Foreign Policy Interests

*Multilateral Development Banks:*

## ***Furthering Measurable Results***

The U.S. agenda for the MDBs continues to focus on raising productivity growth and measurable results by channeling more funds to countries that follow pro growth policies. High-priority initiatives in this agenda include:

- Mainstreaming Results Management; and
- Supporting Countries with Good Policy Performance.

*Furthering Measurable Results:*

## ***Mainstreaming Results Management***

**The MDBs are changing their operating style to focus on measurable results, and continue to strengthen their systems of measurement and accountability. The new reforms emphasize development outcomes in addition to process indicators.**

- The recent replenishment of IDA (IDA-14) significantly improves the performance measurement system. Specifically the new system will include: 14 country outcome indicators; output indicators; country-level institutional indicators; and project level indicators. The IDA-14 agreement stipulates that World Bank Management work to ensure that 100% of IDA investment projects and development policy loans include indicators connected to a timeline with baseline data and periodic assessments of projects and programs against defined expectations.
- At U.S. urging, the AsDB made results measurement a centerpiece of the AsDF-9 replenishment negotiations. The AsDB has established a Results Management Unit to oversee integration of results measurement in all project and grant documents and in country strategies. The Bank has made significant strides in improving the quantity and quality of hard, timebound data in its loan and country documents. AsDB management has initiated a new human resources strategy that rewards staff for achievement of development outcomes, rather than the quantity of loans approved.
- As part of the AfDF-10 replenishment, every project and strategy coming to the Board of Directors will have a fully operational results-based management system by mid-2006. But already, measurable outcome indicators are found in most AfDB projects and are quantified and based on baseline data.

*Furthering Measurable Results:*

## ***Supporting Countries with Good Policy Performance***

**Assistance is effective when it is provided to countries that are committed to and successful in implementing sound pro-growth economic policies. Under MDB performance-based allocation systems, countries that demonstrate commitment to good policies receive greater resources than those that do not.**

- The International Fund for Agriculture Development (IFAD) is the first MDB to fully implement a performance-based allocation system (PBAS). Work on data collection for country assessments has been completed and IFAD presented to the September, 2004 Executive Board meeting the composite country scores determining resource allocations for projects in 2005. In January 2005, IFAD became the first institution providing full public disclosure of all country scores including the individual component scores for each criteria within the PBAS.
- 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 lent to the median IDA performer in WBFY93-95, about \$1.20 went to the best performers and \$0.85 to the poorest performers. The Bank's strategy for FY05-07 envisions a wider spread, with \$1.64 per capita going to the best performers and \$0.24 to the poorest performers.
- As the culmination of consistent U.S. pressure over the last several years, the IDA-14 agreement commits the World Bank to full disclosure of the numerical ratings for the Country Policy and Institutional Assessments (CPIAs) beginning with the FY05 exercise.
- The AsDB has taken important steps to improve its PBAS by significantly increasing the weight given to governance and performance in country ratings. Additionally, Management has agreed to provide full disclosure of all country performance ratings starting in 2005.



*Multilateral Development Banks:*

## ***Improving Debt Sustainability – Increasing Grants***

For the last twenty-five years, the international community has attempted to address the unsustainable debt burdens of poor countries through a series of stop-gap measures. During this period, a number of countries have needed and received repeated debt reduction and reschedulings from the “Paris Club” of major bilateral creditors.

All of these responses were understandable in light of countries’ debt problems; however, they have not comprehensively addressed the longer term systemic determinants of debt distress, such as perverse incentives for excessive lending and excessive borrowing.

*Furthering Measurable Results:*

## ***Increasing Grants***

**The Bush Administration strongly believes that grant financing is a critical component of any long-term debt sustainability solution. In 2001, President Bush called on the MDBs to provide 50% of their assistance to the poorest countries in the form of grants. The IDA-14 and AfDF-10 Agreements nearly fulfill President Bush's initiative calling for 50% of IDA's assistance to the poorest countries to be provided as grants. IDA and the AfDF will increase the share of new funding distributed to the poorest countries through grants, rather than loans, to about 45% from approximately 25% and 20%, respectively.**

- Due to strong U.S. leadership during IDA-14 negotiations, IDA adopted a new debt sustainability framework for determining grant eligibility. IDA will allocate grant financing when countries are at risk of experiencing debt distress. Under the framework, 47 countries (out of 62 eligible) are projected to receive grant financing, of which 42 will receive 100% of their IDA assistance in the form of grants. Given IDA's role as the largest multilateral provider of development assistance, this achievement will have a significant impact in facilitating long-term debt sustainability in the poorest countries.
- At the AfDF, the U.S. pressed donors to adopt a debt sustainability framework that is compatible with the IDA framework, ensuring a coordinated approach to determining the most appropriate financing terms for poor countries. Under this framework, 29 countries (out of 38 eligible) are projected to receive grant financing, of which, 26 (more than two-thirds) of the poorest countries will receive will receive 100% of their AfDF assistance as grants.
- The recent replenishment of the AsDF established a grant window for the first time where 30% of assistance to the poorest countries will be in the form of grants. Grants will be provided for technical assistance, HIV/AIDS projects, and debt-vulnerable or post-conflict countries. Furthermore, recognizing the importance of harmonizing debt sustainability analyses across the IFIs, donors agreed that the AsDB would consult closely with IDA on its debt sustainability framework.

*Multilateral Development Banks:*

## ***Enhancing Accountability: Transparency, Governance and Corruption***

Transparency allows the kind of public scrutiny that is essential to ensuring accountability and results. The U.S. continues to press the MDBs to release more documents, especially those relating to Board discussions, country performance, measurable results, and anti-corruption measures. While there has been important progress, the U.S. continues its strong advocacy for further advances.

- Section 581 of the Consolidated Appropriations Act, 2004 (P.L. 108-199);
- Increasing Coordination and Broadening Participation.

All of the MDBs have begun to mainstream mechanisms to measure and report the results of their projects. The new reforms emphasize measurable results with specific timelines. Results measurement will allow the impact of governance programs to be monitored, thereby helping to improve their design and maximize the impact of those projects on several levels:

- On the Country Level
- On the Project Level
- On the Institution Level

*Increasing Transparency:*

## ***Section 581 of the Consolidated Appropriations Act, 2004***

**During the one year after the legislation was passed, tremendous progress has been made on the transparency goals stated in the legislation.**

- The World Bank now makes publicly available all health, education, and poverty-focused operations include measurable outcome and output indicators and results upon completion as well as the “Status of Projections in Execution”.
- The IDB’s new information disclosure policy now includes a provision for the release of Board minutes within 60 days after their approval.
- The AsDB has agreed to adopt a more transparent and forward-leaning disclosure and public communications strategy. Among several notable features, the new policy provides for the translation and dissemination of most documents into national and local languages. Affected persons will have more input in the design of resettlement, environmental and other assessment documents, and full access to such documents once they are issued to the Board.
- The AfDB’s new information disclosure policy now includes the disclosure of draft country strategies and operations policy papers at least 50 days prior to formal Board discussion and the disclosure of prospective project briefs at least 6 months prior to presentation to the Board.
- The EBRD Management has indicated its intention to implement a regular process for assessing its internal controls systems in a manner consistent with the approach of the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The plan is to implement this in a sequential manner, first addressing internal controls over external financial reporting and subsequently addressing the Bank’s operational risk policies.

*Increasing Transparency:*

## ***Improving Coordination and Broadening Participation***

***Improving Coordination:*** In order to improve the effectiveness of MDB activities, the U.S. has emphasized the importance of better coordination among development banks, especially on diagnostics, to remove unnecessary overlaps and to focus each institution on its comparative advantages.

- The IDB hosted the Second International Roundtable on Managing for Development Results in May, 2004. The presidents of five multilateral banks and the chairman of the OECD's Development Assistance Committee endorsed a plan to strengthen country capacity in the area of managing for results.

***Broadening Participation:*** The MDBs have made considerable strides over the last decade in improving dialogue with the NGOs, academia, the private sector, and other stakeholders early in the project and policy design process. Such "upstream" efforts improve development outcomes by, among other things, ensuring ownership, encouraging public private cooperation, fostering innovative ideas and solutions, improving project design, and promoting accountability and effectiveness.

- The AsDB's resident mission policy is putting more staff in the field to strengthen dialogue with borrowing countries, improve donor coordination, and heighten oversight of portfolios. An increasing amount of analytical work is being devoted to resident missions.

*Strengthening Good Governance:*

## ***Governance and Corruption – Country Level***

**At the country level, U.S. efforts to strengthen anti-corruption activities are focused on enhancing the transparency and accountability of recipient countries' governance systems and disclosure in MDB operations and analysis, and to channel MDB resources towards countries that have good Governance systems in place.**

- During 2004, IDB approved 19 projects for government reform, for a total of \$887.7 million, or 15.3% of total volume of projects approved. These include projects to modernize fiscal administration in Brazil, strengthen tax and customs authorities in Barbados, reform the public service in Colombia, and improve public management in Guyana.
- The EBRD's Legal Transition Program aims to improve the legal environment of the Bank's countries of operation. This program is fostering interest in and helping to define and implement legal reform in various sectors through the provision of legal technical assistance and policy and strategy advice focused on the development of the legal rules, institutions and culture necessary to reduce corruption and support a vibrant market-oriented economy.

*Strengthening Good Governance:*

## ***Governance and Corruption - Project Level***

**At the project level, U.S. efforts to strengthen anti-corruption activities are focused on encouraging the MDBs to conduct analysis and design projects that help reduce opportunities for corruption, strengthen fiduciary standards, and help ensure that MDB funds will be well spent.**

- The AfDB prepares an Annual Portfolio Performance Review that serves as the basis for identifying potentially problematic projects and projects in need of more intense supervision.
- The NADBank requires covenants from all sponsors of projects for which financing is provided. Among the required covenants is adherence by project sponsors to the Bank's policies and procedures which require observance of generally accepted accounting standards for the project sponsor's country of origin, and the maintenance of other financial controls. The Bank requires project sponsors to maintain detailed, pertinent and consistent financial documentation relating to the Bank's project financing.

*Strengthening Good Governance:*

## ***Governance and Corruption - Institution Level***

**At the institutional level, U.S. efforts to strengthen anti-corruption activities are focused on improving the functioning of MDB internal control processes for internal auditing, investigative mechanisms, whistleblower protections, and corporate procurement, as well as, increasing the disclosure and accountability of MDB operations.**

- The IDB has approved major reforms of the Bank’s project procurement systems. These new policies, and the mandatory use of standard bidding documents for international procurement and selection of consultants, will have major and positive impacts. They are a significant contribution toward a more economic, transparent, and efficient use of the resources of the Bank, of bidders, and of borrowers executing agencies – especially since they are harmonized with World Bank policies and procedures.
- The AsDB recently decided to debar corrupt firms from all AsDB-sponsored activities, not just procurement. As a result of advocacy by the U.S., the AsDB also agreed to add two new professional staff to the Office of Auditor General in 2005 to strengthen its anticorruption oversight and to increase the number of “spot” procurement audits.
- The AfDB is establishing an Independent Compliance Review and Mediation Unit / Inspection Panel, which will focus on any issues of non-compliance by the African Development Bank Group with its operational policies and procedures in the design, implementation and supervision of Bank-funded projects and programs.



## ***Advancing U.S. Foreign Policy Interests***

The MDBs provide support for key U.S. foreign policy priorities:

- disaster assistance following the South Asia tsunami,
- reconstruction in Iraq and Afghanistan,
- advancing economic reform in frontline countries in the war on terrorism,
- combating money laundering and terrorist financing,
- supporting post-conflict countries in their efforts to keep the peace and revitalize their economies,
- promoting free trade, and
- fighting HIV/AIDS.

## ***Disaster Assistance following the South Asia Tsunami***

**The Asian Development Bank and the World Bank responded promptly to the disaster on December 26, 2004, and have since pledged \$1.5 billion to the reconstruction efforts. Cooperation among the IFIs, UN agencies and bilateral donors appears to be quite good. Preliminary needs assessments for Indonesia and Sri Lanka have been completed and other country assessments are expected to be completed in mid-February.**

- The World Bank has pledged \$712 million for rehabilitation and reconstruction efforts in Indonesia, Sri Lanka, and the Maldives. Nearly all of these resources will be provided during 2005. These countries also are projected to receive \$1.6 billion during the IDA-14 period (July 2005 to June 2008) as part of IDA's ongoing financing of development activities. If necessary, they could utilize these resources for reconstruction activities.
  
- The AsDB has pledged \$787 million for rehabilitation and reconstruction efforts in Sri Lanka, Maldives, Indonesia and India. Of this amount, \$175 million will be made immediately available from the restructuring of the AsDB's existing operations in these three countries. The remaining \$612 million will be applied as seed money toward the creation of an Asian Tsunami Trust Fund to provide rapid reconstruction and technical assistance to countries most affected by the tsunami disaster. In coordination with other donors, the AsDB will also fund a \$1 million study to develop a tsunami early-warning system for the Indian Ocean.

## ***Reconstruction in Iraq and Afghanistan***

**The World Bank and the AsDB, along with UNDP and the Islamic Development Bank, co administer the Afghan Trust Fund. Both the World Bank and the AsDB have resident missions in Kabul to speed reconstruction programs and are completing key sections of the national road network, which will help jump-start economic recovery. Additionally, the World Bank administers the International Trust Fund for Iraq.**

- To date, the AsDB has committed \$518 million in soft loans and technical assistance grants for Afghanistan and has disbursed nearly 50% of the total. Among other things, AsDB monies are funding several infrastructure rehabilitation projects, an equity investment in a cellular network provider, and a road improvement project for settlement of returning refugees. At the International Conference of Reconstruction Assistance to Afghanistan held in April, 2004, the AsDB pledged an additional \$800 million in concessional loans and grants and \$200 million in private sector assistance for the period 2005-2008.
- In Iraq, the World Bank has negotiated several projects. These include: financing the construction of new school buildings for about 110 existing primary and secondary schools in unsafe or overcrowded facilities, as well as the major rehabilitation of about 140 schools; improving the investment climate and developing the private sector, including financing part of a high-capacity national telecommunications network and related infrastructure to connect key parts of the Central Bank's payments and settlements system; financing water supply and sanitation rehabilitation in nine governorates; and financing urban reconstruction in the poorest areas of three governorates.

*Advancing U.S. Foreign Policy Interests:*

## ***Advancing Economic Reform in Frontline Countries in the War on Terror***

**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.” Today, the MDBs are providing critical support for economic reform in countries on the front lines of our effort to combat terrorism around the world.**

- In Pakistan, the AsDB is engaged in a project that aims to reduce the percentage of the population of the province living below the poverty line from 44% to 33% by 2012, and to increase transit trade with Afghanistan and the Central Asian Republics by 20% and 5%, respectively, each year through 2012. By the time of project completion in 2010, the percentage of the rural population that will have access to a paved road will increase from 41% to 60%, and the percentage of the population with access to public transportation will increase from 32% to 50%, while international and transit traffic coming from Afghanistan and the Central Asian Republics will increase by 8% annually.
- In Jordan, the World Bank has approved a project to improve the education system at the early childhood, basic and secondary levels and produce graduates with the skills necessary to compete in the knowledge economy. This program will seek to boost the science and math scores of Jordanian students in international exams, provide access to safe and adequate schools, provide online learning portals for primary and secondary students and increase enrollment in the second level of kindergarten.
- In Ukraine, the EBRD provided a loan to a municipal water and wastewater management company to support substantial improvements in water and wastewater infrastructure and services, which is expected to contribute to a long-term sustainable reduction of the pollution load to the Dnipro River and the Black Sea basin. The project is expected to provide an important demonstration effect for other cities in the country.

*Treasury's International Programs:*

## ***FY2006 Request***

(dollars, millions)

	<b><u>FY2005 Request</u></b>	<b><u>FY2005 Appropriation</u></b>	<b><u>FY2006 Request</u></b>
MDB Annual Commitments	\$1,434.0	\$1219.2	\$1,328.8
MDB Arrears	58.7	10.9	6.6
Debt Reduction Programs	200.0	99.2	99.8
<u>Technical Assistance</u>	<u>17.5</u>	<u>18.9</u>	<u>20.0</u>
<b>Total Budget Authority</b>	<b>\$1,710.2</b>	<b>\$1,337.3</b>	<b>\$1,445.1</b>

### **Leveraging Resources**

#### Multilateral Development Banks:

- *Historically, the MDBs have provided about \$20 in development lending for every \$1 provided by the U.S.*

#### Enhanced HIPC Initiative:

- *Every \$1 of U.S. contribution to HIPC will catalyze roughly \$30 from all creditors towards the cost of debt relief*

*Treasury's International Programs:*

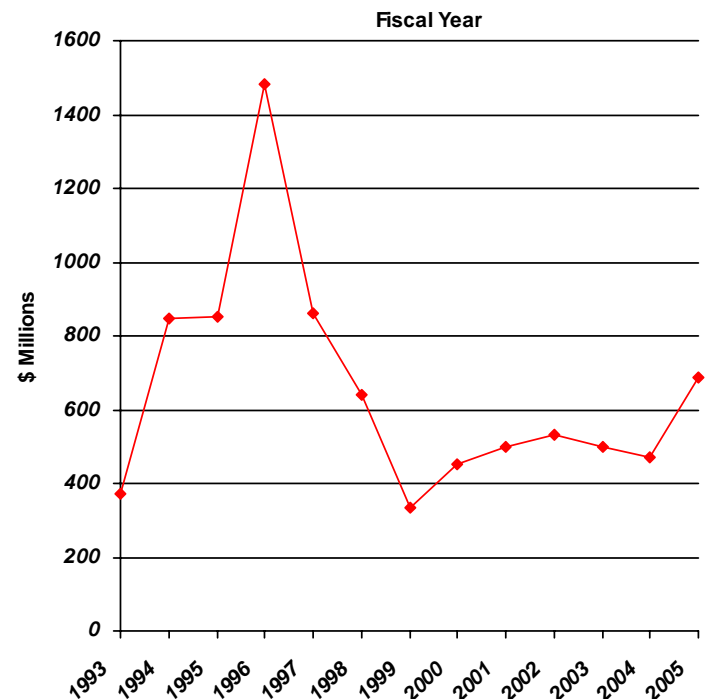
## ***FY2006 Request for the MDBs: \$1,335.3 million***

- Fully funds U.S. annual commitments: \$1,328.8 million
- Funds a portion of MDB arrears clearance: \$6.6 million

U.S. arrears to the MDBs total \$687.0 million

- *In FY2005, arrears increased \$214.3 million from \$472.7 million at end-FY2004.*
- *After dropping steadily from a peak of \$1.5 billion in 1996 – which created a crisis in IDA – to under \$400 million in 1999, arrears have now risen to almost \$700 million.*
- *Full funding for the FY2006 request is critical to U.S. leadership on reform and priorities, which depends on meeting our financial commitments.*

**MDB Arrears**



*Treasury's International Programs:*

***FY2006 Request for  
Debt Reduction Programs: \$99.75 million***

**The FY2006 request may be used for bilateral Heavily Indebted Poor Countries (HIPC) and poorest country debt reduction, contributions to the HIPC Trust Fund, and Tropical Forest Conservation Act debt reduction programs.**

- For the poorest countries, debt reduction provides an incentive to implement macro-economic and structural reforms necessary for economic growth and also frees up resources for poverty reduction efforts. The request may be used for the cost of bilateral HIPC and poorest country debt reduction and for additional U.S. contributions to the HIPC Trust Fund, which is administered by the World Bank and helps regional development banks and other multilateral institutions to meet their costs of debt relief.
- The Tropical Forest Conservation Act (TFCA) received strong bipartisan support and was signed into law in 1998. The program allows for reduction of U.S. concessional debt and redirection of payments in local currency in eligible countries to support programs to conserve tropical forests. The request may provide additional funding for TFCA.

*Treasury's International Programs:*

## ***FY2006 Request for Technical Assistance: \$20.0 million***

**Treasury provides expert advisors to reform-oriented governments in countries undergoing economic transition or recovering from post-conflict situations.**

- *Of the FY06 request, \$8.5 million will be used for helping foreign governments combat terrorist finance activity and \$2.8 million will be used for programs in Afghanistan.*

*Recent successes include:*

- **Iraq:** The Treasury-led effort at the Coalition Provisional Authority (CPA) has aided in the development of a central budget, a revitalization of the banking system, an introduction of sound management practices and transparency at the Central Bank and Ministry of Finance, the creation of a trade bank, and a strengthening of efforts aimed at combating financial crimes and terrorist financing.
- **Afghanistan:** Treasury Technical Assistance has been involved in the initiation of a streamlined government budget process, an improvement of the payment system for government salaries, and the creation of a Debt Management Unit within the Ministry of Finance which manages outstanding debts and guarantees.
- **West Africa:** Treasury Technical Assistance worked with the Central Bank of Western Africa and the Western African Economic Union members in the development and implementation of anti-money laundering and counter-financing of terrorism laws in all member countries.
- **Colombia:** Treasury Technical Assistance helped develop regulations streamlining the resolution and liquidation process for failed financial institutions and allowing the institution responsible for bank resolution to transfer selected assets and all deposit liabilities of failing institutions to viable ones.