

Multilateral Development Banks: Measurable Results, Debt Sustainability and Accountability

Overview

The Multilateral Development Banks (MDBs) serve critical United States' interests in promoting global economic growth and stability, especially in countries and regions where poverty is most acute. From the outset, the Bush Administration has pursued an aggressive reform agenda in an effort to maximize the institutions' effectiveness and achieve better results on the ground. As a result, considerable progress has been achieved in measuring results, increasing grants, focusing on private-sector development, fighting corruption and improving transparency and accountability. Ongoing work is required to extend and make permanent these advances, and the intensity of U.S. leadership for change continues unabated.

While the World Bank predicts 3.2% growth in developing countries in 2005, overall economic progress in the world's poorest countries remains unsatisfactory. Over the last two decades, some broad indicators of global poverty have shown improvement and the MDBs have contributed to these results. According to the latest available data, the proportion of people living in extreme poverty (under \$1 per day) fell from approximately 30% in 1990 to 21% in 2001. Between 1990 and 2002, male adult literacy increased from 64% to 72%; female literacy increased from 42% to 53% during this same period, due primarily to a sharp increase in girls entering school. The under-five infant mortality rate in low and middle income countries dropped from 103 per thousand live births in 1990 to 88 per thousand live births in 2002. However, despite these improvements, billions of people still live in poverty.

Among countries and regions economic growth and rising living standards are uneven. Since 1990, countries in East Asia and the Pacific, led by China, have nearly halved extreme poverty. Parts of Latin America and the Caribbean are making some progress. Central Asia and Sub-Saharan Africa, however, have shown little improvement in living standards. In Sub-Saharan Africa, half the population lives in extreme poverty, one-third go hungry, and one-sixth die before the age of five – about the same as a decade ago. Yet amid this picture of stagnation, some countries are reforming and making impressive gains. Sierra Leone, Mozambique, and Uganda grew more than 3% a year on a per capita basis in 2001 and 2002. Over the past decade, Madagascar and Mauritania achieved some of the world's sharpest reductions in childhood malnutrition. Countries that adopt and implement the right mix of pro-growth policies can achieve real progress and use development assistance wisely and effectively.

In addition to their role in promoting economic growth, the MDBs also provide support for key U.S. foreign policy priorities, such as 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.

President Bush has said, “Because of American leadership and resolve, the world is changing for the better.” The Bush Administration has developed a new economic development agenda with the aim of using foreign aid more effectively and has put this agenda in practice with the creation of the Millennium Challenge Account (MCA). MCA funds will assist countries that govern justly, invest in people, and encourage economic freedom. President Bush has called for explicit measurable results throughout his administration, and it is a theme being stressed in the MCA assistance programs.

U.S. leadership in the MDBs is strong and is continuing to achieve results that make the institutions better and more accountable. To help achieve its MDB reform goals, the Bush Administration linked its financial commitments to implementation of reforms that hold the institutions accountable for spending resources effectively through results-based management frameworks. The implementation of results-based systems by the MDBs will also help the international community meet the international development goals of the UN Millennium Declaration including by 2015 to reduce by half the number of people, from 1990, whose income is less than a dollar a day.

The U.S. has urged the MDBs to focus their efforts on projects that produce measurable results and raise living standards through higher productivity. This means placing a greater emphasis on private sector development - particularly small and medium sized enterprises – as well as on health and education, to help individuals realize their full potential. It also means aggressively promoting pro-growth policies that enable countries to use assistance effectively. Because of U.S. leadership, the MDBs’ concessional windows – which are devoted to the poorest countries – have established performance-based allocation systems (PBAS). Such systems provide more resources to countries with sound growth-oriented policies and fewer resources to countries without them, with an extra emphasis on governance to promote transparency and fight corruption.

The Administration’s FY2006 budget request for the MDBs includes \$1,329 million to fund annual U.S. commitments. The request also includes \$6.6 million towards clearing U.S. arrears to the MDBs, which now total \$687 million. It is critical that the U.S. meet its international commitments, thus helping to ensure U.S. leadership and credibility on policy direction, program priorities, and institutional reform.

The FY2006 request includes the first annual commitment to three new replenishments: the fourteenth replenishment of the International Development Association (IDA-14); the tenth replenishment of the African Development Fund (AfDF-10); and the ninth replenishment of the Asian Development Fund (AsDF-8). The negotiations for these three replenishments were very successful in achieving key U.S. reform objectives. Each of these replenishments includes profound advances in improving debt sustainability through increased 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. The AsDF established a grant window for the first time and approximately 30% of assistance to the poorest countries will be in the form of grants. Success was also achieved in the areas of debt sustainability, measurable results, transparency, and support for the private sector.

The U.S. is the largest cumulative donor to the MDBs, thus giving the U.S. sizable influence in the institutions. Our participation in the MDBs leverages greater resources and thus can generate greater impact than is available through bilateral programs. In FY2004, the U.S. provided \$1.4 billion in new funding, while the MDBs made loan and grant commitments of approximately \$49 billion. U.S. commitment to the MDBs reflects not only this resource-leveraging power, but also the enormity of the challenge and the U.S. economic and security stakes in developing and emerging countries around the world.

The remainder of this essay is divided into four sections: (I) Furthering Measurable Results; (II) Improving Debt Sustainability; (III) Increasing Accountability; and (IV) Advancing U.S. Foreign Policy Interests. More detailed information on each MDB can be found in separate tabs of this document.

I. Furthering Measurable Results

President Bush's agenda for the MDBs continues to focus on raising productivity growth by channeling more funds to countries that follow pro-growth policies based on economic freedom. The MDBs can play an important role in helping countries to grow and reduce poverty, but rigorous tracking of results is necessary to demonstrate whether MDB activities are making a difference. The U.S. has led a high-priority campaign for the establishment of results-based systems that set quantifiable performance targets and measure results at the project, sector, country and institutional level of operations.

Mainstreaming Results Management: The MDBs are changing their operating style to focus on measurable results, and they are continuing to strengthen their systems of measurement and accountability. All of the MDBs have begun to mainstream mechanisms to measure and report the results of their projects. The new reforms emphasize quantifiable results with specific timelines in all operations, especially in the design of country assistance strategies and individual projects (including during project implementation).

The new reforms emphasize development outcomes in addition to process indicators. It is not enough to say that a medical clinic has been built to provide vaccinations for children. What matters is whether the vaccines get into the arms and mouths of the children who need them and their health improves. Addressing these multiple aspects means: establishing a pervasive results culture in MDBs by incorporating a measurable results agenda into all operations; strongly encouraging and building capacity in developing countries to collect the data necessary to measure results; and emphasizing the need to establish outcome indicators and monitoring systems early in the design of country assistance strategies and individual projects.

- A portion of the U.S. commitment to the previous IDA replenishment (IDA-13) was structured as an incentive payment for reaching specified targets in the area of health, education, and private sector development. In FY2005, the incentive contribution was \$200 million. IDA met all of the targets. At the request of Congress, the U.S. required that an outside, independent evaluation verify that IDA did indeed meet the targets. The assessment concluded that IDA met the targets for the \$200 million incentive contribution.

- The recent replenishment of IDA (IDA-14) significantly improves the performance measurement system. This results-oriented approach will increase the effectiveness of IDA's development projects and programs. Specifically the new system will include: 14 country outcome indicators; output indicators; country-level institutional indicators; and project level indicators. Furthermore, the IDA-14 report stipulates that World Bank Management will 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, concluded in May 2004. The Bank has established a dedicated Results Management Unit to oversee integration of results measurements in all project and grant documents and in country strategies. To this end, the Bank has made significant strides in improving the quantity and quality of hard, time bound data in its loan and country documents. Further, 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. Already, measurable outcome indicators are found in most AfDB projects and are quantified and based on baseline data.
- For each of its countries of operation, the EBRD monitors progress in transitioning toward a market economy. Specifically, the EBRD produces an annual Transition Report that examines policy changes and economic developments in each country and a semi-annual publication entitled Law in Transition, which examines the quality of laws and institutions (such as insolvency laws, corporate governance, and contract enforcement) that build market-based economies, create a sound investment climate, and promote economic growth.

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. A sound policy environment also attracts investment because it increases private sector confidence. On the other hand, providing assistance to countries that are not committed to good policies can actually be counterproductive. Under MDB performance-based allocation systems, countries that demonstrate commitment to good policies receive greater resources than those that do not.

- 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. By WBFY99-01, 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

FY05-07 envisions an even 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 report commits the World Bank to full disclosure of the numerical ratings for all components of the Country Policy and Institutional Assessments (CPIAs), beginning with the FY05 exercise. Transparency of the CPIAs will ensure that shareholders, borrowers, and other stakeholders will have full access to the information that determines how IDA allocates limited resources to poor countries. The AfDF-10 report also commits to making the country performance allocation's (CPA's) individual country performance ratings and components fully transparent.
- The AsDB has taken important steps to improve its performance-based allocation system by significantly increasing the weight given to governance and performance in country ratings. The methodology for determining country allocations is now far more transparent and easy to understand than the old formula. Additionally, Management has agreed to provide full disclosure of all country performance ratings starting in 2005.
- The International Fund for Agriculture Development (IFAD) has implemented a PBAS for all countries, as a result of U.S. leadership in the IFAD-6 replenishment. In January 2005, IFAD became the first institution to provide full public disclosure of all country scores, including the individual component scores for each criterion within the PBAS. The first loans using the PBAS will be presented to the Executive Board for approval in April 2005.

II. Improving Debt Sustainability and 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. Numerous poor countries, including Cote d' Ivoire, Democratic Republic of Congo, Madagascar, Mauritania, Mozambique, Niger, Senegal, Sierra Leone, Togo, Uganda, and Zambia, have each received 8 or more Paris Club reschedulings.

All of these responses were understandable in light of the 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. The result has been that as debt is cleared through forgiveness and re-schedulings, the IFIs have stepped in and provided new loans often exceeding the amount of debt relief. For example, between 1989 and 2002, countries eligible for the Heavily Indebted Poor Countries (HIPC) initiative accumulated nearly \$93 billion in new debt while debt relief totaled approximately \$40 billion.

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 percent of their assistance to the poorest countries in the form of grants.

We have made considerable progress in the last few years toward reaching this goal. As a result of strong U.S. leadership in the previous round of replenishments (IDA-13 and AfDF-9, completed in 2002), the International Development Association (IDA) and African Development Fund (AfDF) now provide roughly 25 percent of their total assistance to the poorest countries on grant terms.

Throughout 2004, the U.S. pressed very successfully for significant increases in grant assistance in the replenishment negotiations at IDA, the AfDF, and the AsDF:

- Due to strong U.S. leadership during IDA-14 negotiations, IDA adopted a new debt sustainability framework to serve as the analytical base for determining grant eligibility. As a result, 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 negotiations, the U.S. pressed donors to adopt a debt sustainability framework that is compatible the IDA framework, thereby 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 100% of their AfDF assistance as grants.
- The IDA-14 and AfDF-10 Agreements nearly fulfill President Bush's initiative calling for 50 percent of IDA's assistance to the poorest countries to be provided as grants. Overall, 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. Before 2002, nearly 100% of IDA and AfDF assistance was provided as loans.
- 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.

Experience under IDA-13 and AfDF-9 has demonstrated the utility of grants for priority development needs in the poorest countries. Some of the illustrative examples include:

- The Democratic Republic of the Congo received a \$102 million grant from IDA to mitigate the negative impact of the HIV/AIDS epidemic on the stabilization, recovery, and development of the country. It will help strengthen the capacity of both the people living with HIV/AIDS and community-based organizations, as well as provide financing

for activities in the area of prevention, care and treatment. Furthermore, the grant will empower local communities to identify priorities and implement micro-projects, which aim to change behaviors, improve the impact of prevention measures, and develop local responses to blunt the impact of the epidemic.

- Bangladesh received a \$40 million grant from IDA to increase access to water in low-income rural communities through the promotion of piped water supply. In small villages of less than 200 households where arsenic levels are unsafe, and where the provision of piped water is not viable, the project will provide traditional arsenic mitigation options. It will also support the development of adequate regulations, monitoring, capacity building and training.
- Madagascar received a \$9 million grant from the AfDF to strengthen national capacity to implement strong governance programs. The project has three components: (i) support for the enhancement of transparency and accountability in public finance management; (ii) support for the modernization and enhancement of the legal and judicial environment; and (iii) project management improvement. The grant will build national skills, in order to improve the quality of the output of public services and allocation of budgetary resources. It will help elaborate budget-programs in five pilot ministries (Justice, Education, Health, Agriculture and Industry) and implement a computerized system for managing public accounts.
- Kyrgyzstan received a \$7 million grant from IDA to clean up radioactive Soviet-era mining residue and decrease vulnerability to landslides. Specifically, this grant project comprises key mitigation measures designed to: (i) isolate and protect abandoned uranium mine tailings and waste dumps from disturbance by natural processes such as landslides, floods, and from leaching and dispersal processes associated with ground- and surface-water drainage; (ii) create an effectively administered disaster management and response system; and (iii) develop and implement systems to detect and warn against active landslide movements.

III. Enhancing Accountability: Transparency, Governance and Corruption

Good governance is essential for private business to thrive. Poor governance, the lack of rule of law or enforceable contracts and the prevalence of corruption create disincentives to invest, to start new firms, and to expand existing firms with high-productivity jobs. This has a negative impact on capital formation and entrepreneurial activity. In too many cases, potential entrepreneurs and investors in developing countries are deterred by arbitrary rules, corrupt bureaucracies, and weak judiciary systems. For such individuals to succeed, governments must fairly enforce laws and contracts and respect human rights and property. At the urging of the U.S., more diagnostics on governance issues are being undertaken by the MDBs, governance and corruption are routinely discussed in MDB country strategies, and more assistance is being provided to help countries tackle corruption issues. Efforts to fight corruption are focused on three levels: the country level, the project level, and the institutional level.

Country level: At the country level, U.S. efforts to strengthen anti-corruption efforts 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 in place.

- During 2004, the IDB approved 19 projects for government reform, for a total amount 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.
- In 2004, the AsDB approved 13 core governance loans, having a total loan amount of \$702.2 million (up from \$449.5 million in 2003). A recent example of direct assistance for good governance and anti-corruption activities includes the State Audit Reform project to reform public expenditure in Indonesia. The project aims to reform the state audit function at all levels and bring it in line with good international practice. The loan includes policy and capacity-building initiatives that will strengthen the complementarities between internal and external audit functions.
- 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 (e.g., capital markets, corporate governance, concessions, bankruptcy, secured transactions, and telecommunications regulation). Legal technical assistance and policy and strategy advice focus on the development of the legal rules, institutions and culture necessary to reduce corruption and support a vibrant market-oriented economy.

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

- All the MDBs include good governance covenants in contracts with project sponsors. Among the required covenants is adherence by project sponsors to the Bank's policies and procedures which require observance of generally accepted accounting standards in the project sponsor's country, and the maintenance of other financial controls. The MDBs require project sponsors to maintain detailed, pertinent and consistent financial documentation relating to the project.
- The AsDB has taken steps to improve the financial management and governance of projects by revising the guidelines that govern financial management practices of executing agencies and by implementing an automated project rating system to improve consistency, standardize ratings, and reduce subjectivity. These procedures will result in better identification of financial irregularities in project implementation.

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 of information and the accountability of MDB operations.

- The IDB has approved major reforms of the Bank's project procurement systems. New policies, approved by the Board in January 2005 and available on the Bank's website, will apply in all operations financed by the Bank. 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 borrower's executing agencies – especially since they are harmonized with those of the World Bank.
- The World Bank has instituted several reforms that attempt to eliminate conflicts of interest and corrupt practices among its staff. They include strengthening financial disclosure obligations for senior staff. All of the Bank's senior managers and Board members are now required to provide an annual statement listing their financial interests and those of their immediate families.
- 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 issues concerning 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.
- IFAD established an independent Office of Evaluation (OE) which is accountable directly to the Executive Board; the OE head can be appointed and dismissed only with Board approval. The OE is providing all evaluation reports directly to the Executive Board without clearance by management.

Increasing Transparency and Accountability: 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 decisions, country strategies, measurable results, and anti-corruption measures. While there has been important progress, the United States continues its strong advocacy for further advances.

Section 581 of the Consolidated Appropriations Act, 2004, directs the Secretary of the Treasury to instruct the United States Executive Director at each multilateral development institution to inform their respective institution of certain policy goals pertaining to transparency and accountability and to use the voice and vote of the United States to achieve such goals. During the one year that has passed since the legislation was enacted, substantial progress has been made toward reaching these goals. For example:

- The World Bank now makes publicly available considerable information on all its projects. This includes summary information on all projects sent to the Board of Directors for approval, information on the progress of individual projects during implementation, and detailed information on output and outcome indicators upon project completion.
- The World Bank, including the IFC and MIGA, has committed to begin to conduct a comprehensive assessment of internal management controls over operations and compliance by March 2005.
- The IDB's information disclosure policy now includes a provision for the release of Board minutes within 60 days after their approval, and the AfDB Board has agreed to adopt a similar policy.
- The AfDB's 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 six months prior to presentation to the Board.
- The AsDB Board is considering the adoption of a more transparent and forward-leaning disclosure and public communications strategy. Among several notable features of the new policy is a requirement that most documents be translated into national and local languages and disseminated. The public would also have access to a rolling, three-week schedule of Board meetings. Updates on project implementation – in the form of Public Information Documents – will be made available to the public for the first time, as will Board minutes and the Chair's summary of Board discussions on country strategies.
- 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.

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 with respect to on-the-ground coordination of assistance to remove unnecessary overlaps and to focus each institution on its comparative advantages.

- **Post-Conflict Coordination:** The World Bank is co-administering a trust fund for Afghanistan in collaboration with the UNDP, the Asian Development Bank and the Islamic Development Bank. The World Bank has taken the lead role in coordinating donor assistance to rebuild a democratic Haiti after the departure of the Aristide government. The World Bank, along with the United Nations, joined the Iraq International Advisory Board (IAMB) and played a central role in carrying out a

development needs assessment during summer 2003 and organizing the Madrid donor conference to support the reconstruction of Iraq.

- **Poverty Reduction Strategies:** A protocol on supporting countries preparing Poverty Reduction Strategy Papers (PRSPs) was agreed on among the MDBs and the IMF. The World Bank and the IMF work together to assist borrowers to develop their own PRSPs, which are required for countries to be eligible for HIPC debt relief. The PRSPs guide Bank and Fund future lending programs for all IDA and Poverty Reduction and Growth Facility (PRGF)-eligible countries.
- **Private Sector:** The World Bank Group's International Finance Corporation (IFC) coordinates closely with the EBRD to eliminate funding overlap, identify areas of joint expertise, and apportion resources efficiently in joint funding situations. Joint funding of projects occurs in high risk countries and sectors where each institution is limited in its risk-taking capacity.

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 stakeholder ownership, encouraging public-private cooperation, fostering innovative ideas and solutions, improving project design, and promoting accountability and effectiveness.

- The resident mission policy of the AsDB calls for it to put 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.
- The GEF is engaged in a project in India in collaboration with private companies, government bodies, and NGOs to assist the Indian government in developing small hydel (watermill) resources in the Himalayan and sub-Himalayan regions. The project is being replicated in other states.

IV. Advancing U.S. Foreign Policy Interests

The MDBs provide support for key U.S. foreign policy priorities. During the last year, examples of such support include:

Disaster Assistance Following the South Asia Tsunami: The Asian Development Bank and the World Bank responded promptly to the disaster that occurred on December 26, 2004, and have since pledged \$1.5 billion to the reconstruction efforts. There has been strong cooperation among the IFIs, UN agencies and bilateral donors. Preliminary needs assessments for Indonesia and Sri Lanka were completed quickly to enable assistance planning to get underway.

- 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. On a much smaller scale, the IFC and USAID are working on a SME guarantee facility for Sri Lanka.

- 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 restructuring existing operations in Sri Lanka, Maldives, and Indonesia. 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 the 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 that amount. 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 assistance to the private sector for the period 2005-2008.
- In 2004, the World Bank financed over 20 seminars and workshops in Iraq, which trained about 600 Iraqi officials from 19 ministries, the Central Bank, universities, and the private sector. The seminars focused on key topics for Iraq's reconstruction, such as: project management; financial management; procurement; environmental and social safeguards; macroeconomic reform; and private and financial sector development.
- The World Bank is also financing the printing and distribution of 69 million textbooks (600 titles) for 6 million students in Iraq's primary and secondary schools in all 18 governorates for the 2004/2005 school year. As of the end of February, over 65 million textbooks had been delivered.
- In Iraq, the World Bank has negotiated several projects including:
 - \$60 million to finance the construction of new buildings for about 110 existing primary and secondary schools now occupying unsafe or overcrowded facilities, as well as, the major rehabilitation of about 140 schools;

- \$55 million to improve the investment climate and develop the private sector. This project includes financing part of a high-capacity national telecommunications network and related infrastructure to interconnect key parts of the Central Bank's payments and settlements system.
- \$90 million to finance water supply and sanitation rehabilitation in nine governorates and urban reconstruction in the poorest areas of three governorates.

Advancing Economic Reform in Frontline Countries in the War on Terrorism: 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 portion of the population living below the poverty line from 44% to 33% by 2012, and to increase annual transit trade with Afghanistan and the Central Asian Republics by 20% and 5%, respectively, by 2012. By the time of project completion in 2010, the portion of the rural population with access to a paved road will increase from 41% to 60%, and the portion 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 West Bank Gaza, the World Bank is engaged in a project to prevent public health, safety, and environmental hazards stemming from the lack of proper treatment of wastewater in North Gaza.
- In Georgia, the EBRD is continuing to promote insolvency law reform, which is expected to include the training of judges and insolvency practitioners. A top priority will be to address corruption issues in dealing with insolvency matters.
- 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 are expected to contribute to a long-term sustainable reduction of the pollution in the Dnipro River and the Black Sea basin. The project is expected to provide an important demonstration effect for other parts of the country.

Anti-Money Laundering and Combating Terrorist Financing (AML/CFT): The World Bank, other MDBs, and the IMF are active, strong partners in the global effort to combat money-laundering and terrorist financing. They play an important role in encouraging member countries to strengthen their AML/CFT regimes and have established appropriate due diligence procedures to ensure that disbursements are not inadvertently supporting terrorist organizations.

- The World Bank has provided or is providing assistance to several countries, including Albania, Algeria, Colombia, Indonesia, Jamaica, Mauritius, Russia, Turkey, and Ukraine, to design anti-corruption measures, including AML regimes, strengthen banking supervision and regulation practices to meet international AML standards, introduce best practices in anti-money laundering laws and regulations, and facilitate the establishment of payment systems that will enhance the ability of authorities to identify suspicious transactions.
- The AsDB incorporates anti-money laundering controls into its normal loan operations. A recent example was the successful completion of enhancements of the Philippines money-laundering regime as part of a \$75 million tranche release for the Second Non-Bank Financial Governance program. Similar conditions have been incorporated in a number of AsDB-sponsored loans for governance and social sector development.

Conclusion

The international community continues to face an enormous challenge in the effort to raise living standards and reduce poverty in the world's poorest countries. Helping poor countries address their needs without incurring unsustainable debt burdens is crucial. The United States has vital economic and security interests in meeting this challenge successfully, and our support for the MDBs is an essential element of the effort. It is critical that the institutions measure their effectiveness accurately to ensure adequate accountability and results in the expenditure of taxpayer resources. The Administration looks forward to working closely with the Congress to so that these institutions will have the resources needed to meet these complex but vital challenges.