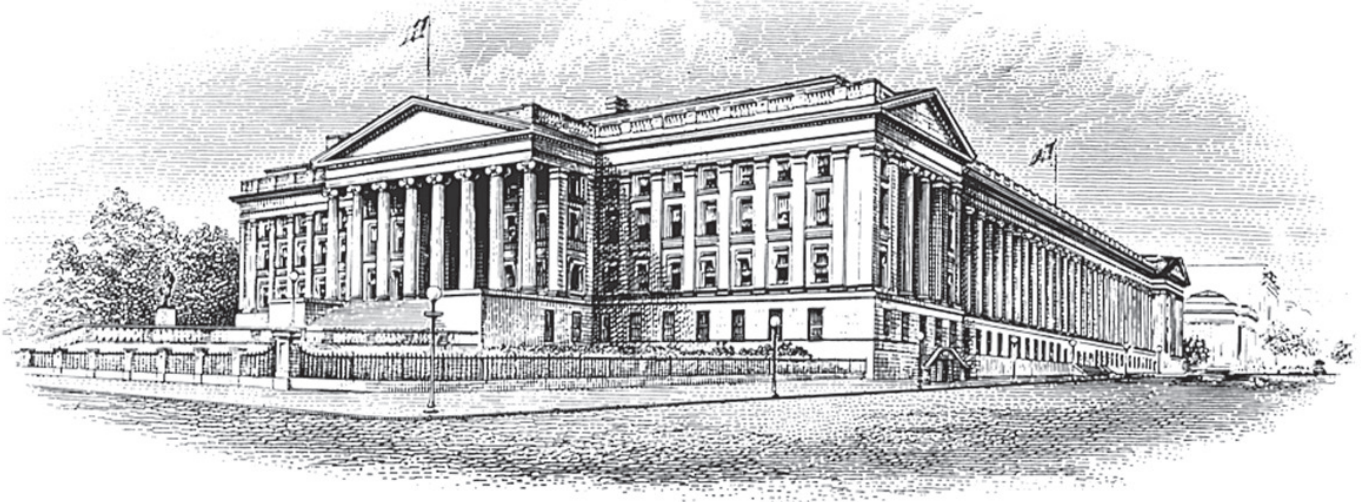




U.S. DEPARTMENT OF THE TREASURY INTERNATIONAL PROGRAMS



**JUSTIFICATION FOR APPROPRIATIONS
FY 2013 BUDGET REQUEST**

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DEPARTMENT OF THE TREASURY
WASHINGTON, DC

Dear Member:

On behalf of President Obama, it is my pleasure to submit the Congressional Presentation Document for the Department of the Treasury's International Programs for Fiscal Year 2013.

Treasury's FY 2013 request follows on Congress's landmark actions in FY 2012 in support of the multilateral development banks (MDBs). For FY 2013, our request is for a continuation of funding for our multi-year commitments to the MDBs, as well as to the Food Security and Environment trust funds at the World Bank. Congress provided funding toward these commitments last year. In addition to funding these commitments, we are seeking funding in support of anticipated bilateral debt forgiveness obligations and for the ninth replenishment of the International Fund for Agricultural Development (IFAD). While the IFAD request reflects a new replenishment, we are not seeking an increase in funding as our pledge maintained funding at current levels.

Investments in multilateral institutions remain a cost-effective way to promote our national security, support future economic growth, and address key global challenges. Our continued support also will preserve U.S. leadership at the MDBs – leadership that has greatly benefited both the MDBs and U.S. taxpayers for the last 60 years.

In this past year, we sought the support of the MDBs in leveraging economic reform in the Middle East and North Africa in the wake of the Arab Spring. The successful transformation of this region is critical to our national security, and will depend on countries' ability to generate broad-based growth and jobs.

As we know from the experience of the transition in Eastern Europe and the former Soviet Union, fundamental change on this scale requires substantial resources and sustained and intensive engagement. The MDBs are well-positioned to provide the investments in soft and hard infrastructure that underpin growth as well as the long term strategic engagement needed to support the transition to democratic governance and a market economy. As I have noted previously with Secretary Panetta in a joint letter to Congress, "the MDBs are essential partners with the United States as we confront and contain emerging threats."

In addition to supporting our strategic interests and national security priorities, we look to the MDBs to drive domestic growth by developing the open and transparent market economies that will become the next generation of U.S. trading partners, supporting U.S. exports and jobs. The MDBs complement our bilateral assistance programs by leveraging capital to mobilize financing for large-scale infrastructure and other private investment. For example, in countries such as Turkey, Colombia, and Indonesia that have benefited from MDB investments, development has fueled rapidly increasing demand for U.S. products, and our exports to these economies have grown by more than 200 percent over the last ten years.

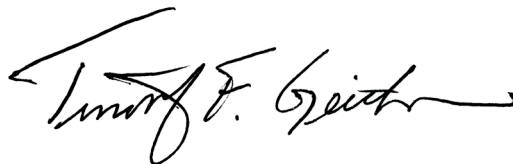
The MDBs, as well as specialized trust funds such as the Global Agriculture and Food Security Program (GAFSP), are also uniquely designed to help address critical global priorities such as food insecurity, energy insecurity, and environmental degradation. These complex challenges, which know no geographic boundaries, were put into stark relief this year as millions suffered in famine ravished parts of Africa. This crisis underscored the need to invest in sustainable food security and adaptations of agriculture to changing weather patterns. This crisis also highlighted the instability that the lack of such investments can yield. GAFSP, in its first two years of operation, has worked to address the global challenge of food insecurity by providing nearly \$500 million to poor countries that are demonstrating strong leadership and results in transforming their agriculture sectors. The MDBs contributed to the initial, immediate relief effort in the Horn of Africa, with the World Bank approving \$250 million from its new Crisis Response Window last September. Equally important, the World Bank, the African Development Bank, and IFAD are making crucial investments in agricultural productivity to address some of the underlying causes of this humanitarian catastrophe.

While these institutions actively promote critical U.S objectives, our commitments represent only a fraction of the resources that they bring to bear. For example, at the World Bank, burden-sharing with other shareholders coupled with an increase in the Bank's ability to borrow from markets allows each dollar of U.S. capital to support additional Bank lending of \$25. Over time, this effect is compounded, as demonstrated by a capital increase contribution of \$420 million made under the Reagan Administration that helped support \$325 billion in lending over the subsequent two decades. In FY 2013 alone, financial commitments from the MDBs are expected to approach \$80 billion.

For these reasons, I believe that the investments outlined in this document continue to represent an outstanding value for money. At a time when we must continue to seek the best returns for taxpayer resources, these commitments are an extremely sound investment in national security, future economic growth, and the preservation of global public goods.

I look forward to working with you on this important request.

Sincerely,



Timothy F. Geithner

“These institutions [the World Bank and Asian Development Bank] are the largest donors to Afghanistan after the United States, and they have been critical to the success of important projects, such as the Ring Road and the Uzbek-Afghan railroad. We need these critical enabling institutions, and further U.S. support for them will ensure that they are able to continue to contribute as significantly as they have in the past.”

**– General David H. Petraeus
Commander, International Security Assistance Force and Commander U.S. Forces Afghanistan
Statement Before Senate Committee on Armed Services, March 15, 2011**

“As we carefully shift our major combat engagements towards long term partnership and cooperation efforts across the whole of government, the multilateral development banks can play an even greater role helping to restore stability, prosperity, rule of law and good order to these nations.”

**– Rear Admiral Michelle Howard
Testimony before the House Financial Services Subcommittee on
International Monetary Policy and Trade, September 21, 2011**

“As U.S. Forces leave Iraq and Afghanistan, we need international institutions to provide front-line States with sufficient support for lasting economic development. In fact, one of the most important lessons of the wars in Iraq and Afghanistan is that military success is not sufficient to win peace. Broad-based economic development, institution building, and provision of basic services to the people are essential for long-term success.”

**– Secretary of Defense, Leon E. Panetta
and Secretary of the Treasury Timothy F. Geithner
Joint Letter to Congressional Leaders, September 21, 2011**

“American businesses understand these institutions’ vital role in fostering prosperity. MDB loans and expertise help developing countries become reliable trading partners and open up their markets for U.S. goods, and over half of all U.S. exports now go to developing countries that have received assistance from the MDBs. These loans come with conditions, such as strengthening transparency, promoting good governance, and improving the investment climate.”

**–Business Roundtable, Coalition for Employment through Exports,
Emergency Committee for American Trade, National Foreign Trade Council, U.S. Council for
International Business and U.S. Chamber of Commerce
Letter to Members of the United States Congress, June 7, 2011**

“They [the multilateral development banks] provide opportunities for developing nations to build economic infrastructure and capacity, create private sector growth and supply chains, and reform custom regulations and barriers for economic growth, all of which raise the standard of living in these nations and create new markets and consumers for U.S. companies.”

**- James T. Kolbe, Former Member of Congress, Senior Transatlantic Fellow,
German Marshall Fund of the United States
Testimony before the House Financial Services Subcommittee on
International Monetary Policy and Trade, July 27, 2011**

“With downside risks still threatening the global economic outlook, MDB assistance to poor and emerging economies also means preserving and advancing the interests of U.S. business and American workers of companies that trade and invest in these countries.”

**Henry Kissinger, Lee Hamilton, Brent Scowcroft, William Cohen,
Charlene Barshefsky and other members of the Bretton Woods Committee
Joint Letter to Congressional Leaders, October 4, 2011**

EXECUTIVE SUMMARY

Economic Growth, National Security and Poverty Reduction: Multilateral Development Banks

The FY 2013 request for the multilateral development banks (MDBs) is comprised almost entirely of annual commitments negotiated in previous years. This includes a continuation of funding for the General Capital Increases (GCIs) at the International Bank for Reconstruction and Development (IBRD), the Inter-American Development Bank (IDB), the Asian Development Bank (AsDB), and the African Development Bank (AfDB). The only new commitment, for the ninth replenishment of the International Fund for Agricultural Development (IFAD), is a flat line of our current contribution level. Meeting these commitments will secure our leadership at these institutions, enabling them to continue their vital roles in boosting economic growth in export markets for American businesses and strengthening our national security.

Our MDB request includes a first year payment of \$70 million for the Selective Capital Increase (SCI) at the IBRD. Treasury requested and obtained authorization to subscribe to the SCI in FY 2012. Proceeding with the first year payment of \$70 million will enable us to begin to meet our obligations under the World Bank's "voice and vote" reform, which was agreed by World Bank shareholders in 2010. Meeting this obligation is necessary to prevent a drop in U.S. shareholding below the 15 percent threshold. This threshold is critical, as it enables the United States to block amendments to the World Bank's Articles of Agreement, which govern critical issues such as the role of the World Bank President, membership, and the role of the Board of Executive Directors. We are the only member with this veto power.

Treasury's request also includes funding for the special MDB facilities that support the world's poorest countries: the International Development Association (IDA), housed at the World Bank; the Asian Development Fund (AsDF), based at the Asian Development Bank; and the African Development Fund (AfDF), which is part of the African Development Bank Group. These facilities are the most important sources of financing of development needs and priorities in many of the world's most fragile states.

In addition to the annual commitments for FY 2013, the request includes funds to pay for arrears associated with our general capital increase commitment at the AsDB. These arrears were generated by the 0.2 percent across the board rescission in FY 2011, and their payment is necessary to prevent a permanent loss of U.S. shareholding. A loss would end the U.S. status as a co-equal shareholder with Japan and forfeit influence at a time when other shareholders have expressed interest in purchasing any shares we relinquish.

Food Security

The FY 2013 request includes \$134 million for a contribution to the Global Agriculture and Food Security Program (GAFSP). This global fund partners with developing countries to enable small farmers to grow more and earn more. It is one of the most effective ways of working to end global

hunger, because it rewards developing countries that are contributing their own resources and demonstrating leadership to improve agriculture. To date, the fund has allocated nearly \$500 million based on a competitive application process. Through FY 2012, the United States (through funds from the Department of Treasury and the Department of State) will have contributed \$341 million, or nearly 72 percent of the U.S. pledge. The FY 2013 request will bring the total U.S. contribution to the \$475 million pledged by the United States in 2010.

In addition to GAFSP, the food security budget includes \$30 million for first year of the ninth replenishment of the International Fund for Agricultural Development (IFAD), the only global development finance institution solely dedicated to improving food security for the rural poor. The \$30 million is equivalent to our annual commitment under the previous replenishment (which was made in 2008).

Environment and Clean Energy

The FY 2013 request includes \$364.4 million for the Global Environment Facility (GEF), the Clean Technology Fund (CTF), and three Strategic Climate Funds (SCF): the Pilot Program for Climate Resilience (PPCR), the Forest Investment Program (FIP) and Program for Scaling up Renewable Energy in Low-Income Countries (SREP). FY 2013 funding for Treasury's multilateral environment and clean energy programs will directly result in action and investments by other countries to reduce their pollution, curbing the damage that they inflict on our shared spaces, such as the atmosphere and the oceans. Such global action mitigates threats to our domestic environment that increasingly originate beyond our borders, enhances our national security, and provides opportunities for U.S. businesses, particularly in clean energy.

Addressing global environmental challenges now will significantly reduce what we would otherwise have to pay later. By acting now, we avoid paying even higher costs in the future for natural disasters, instability, and conflict emanating from environmental degradation. These programs also provide access to modern forms of energy, critical for helping the world's poorest countries advance out of poverty. Moreover, these programs offer cost-effective returns on our investments. The U.S. contribution leverages significant funding from other donors, developing country governments, development institutions, and the private sector. Each U.S. dollar contributed to the GEF, CTF, and SCF leverages four to five additional dollars from other donors and six to 10 times that from other funding sources (including private sector).

Debt Relief

The FY 2013 budget includes \$250 million for the debt restructuring account to meet potential U.S. bilateral debt relief commitments under the Heavily Indebted Poor Country (HIPC) framework. Specifically, Treasury anticipates that Sudan could become eligible and reach HIPC decision point in FY 2013. The \$250 million request reflects the estimated budget cost of forgiving 100 percent of Sudan's outstanding debt to the United States (currently \$2.4 billion). Prior to obligating funds for HIPC treatment of Sudan's debt, the U.S. will require progress on various fronts that we have identified as pre-conditions for any U.S. support for debt relief. These pre-conditions include fulfillment of the agreement reached by the governments of Sudan and South Sudan under the Comprehensive

Peace Agreement. The obligation of funds will also depend on Sudan's ability to meet current legislative requirements tied to HIPC debt relief, including determinations on human rights and state sponsorship of terrorism.

Given the uncertainty of the situation in Sudan at the time of this submission, Treasury is also requesting transfer authority that would enable the Department to repurpose these funds to help meet other multilateral assistance commitments in the event that Sudan is not likely to reach the HIPC decision point by the end of FY 2014.

Although we are not seeking funds for FY 2013 in support of our Multilateral Debt Relief Initiative (MDRI) commitments, we do continue to anticipate the need in future years for a combination of appropriated funds and early encashment credits to meet our obligations during the IDA16 and AfDF12 replenishment periods.

Technical Assistance

The FY 2013 request includes \$25.4 million for Treasury's Office of Technical Assistance (OTA). This is equal to the FY 2012 base funding level, but the FY 2013 request does not include a request for Overseas Contingency Operations (OCO) funding for OTA. The FY 2013 request would enable OTA to maintain its current footprint of technical assistance programs globally. OTA helps finance ministries and central banks of developing countries strengthen their capacity to manage public finances and mobilize domestic resources. OTA also helps countries develop anti-money laundering regimes and fight corruption.

Summary of Appropriations and Requests
Treasury International Programs
 FY2011-FY2013 (in millions of \$)

	FY 2011 Approp.	FY 2012 Approp.	FY 2013 Request	FY 2013 Request Full Numbers
Economic Growth, National Security and Poverty Reduction (MDBs)				
International Development Association (IDA)	1,232.5	1,325.0	1,358.5	1,358,500,000
Int'l Bank for Reconstruction and Development (IBRD)	0.0	117.4	187.0	186,956,866
Inter-American Development Bank (IDB and FSO)	0.0	75.0	102.0	102,020,448
Multilateral Investment Fund (MIF)	25.0	25.0	0.0	0
Inter-American Investment Corporation (IIC)	21.0	4.7	0.0	0
Asian Development Bank (AsDB)	106.4	106.6	106.8	106,798,868
Asian Development Fund (AsDF)	0.0	100.0	115.3	115,250,000
African Development Bank (AfDB)	0.0	32.4	32.4	32,417,720
African Development Fund (AfDF)	109.8	172.5	195.0	195,000,000
European Bank for Reconstruction & Development (EBRD)	0.0	0.0	0.0	0
Subtotal	1,494.6	1,958.5	2,096.9	2,096,943,902
Food Security				
Global Agriculture and Food Security Program (GAFSP)	99.8	135.0	134.0	134,000,000
Int'l Fund for Agricultural Development (IFAD)	29.4	30.0	30.0	30,000,000
Subtotal	129.2	165.0	164.0	164,000,000
World Bank Environmental Trust Funds				
Clean Technology Fund (CTF)	184.6	184.6	185.0	185,000,000
Strategic Climate Funds (SCF)	49.9	49.9	50.0	50,000,000
Global Environment Facility (GEF)	89.8	89.8	129.4	129,400,000
Subtotal	324.4	324.4	364.4	364,400,000
Debt Relief				
Bilateral Debt Reduction	33.5	0.0	250.0	250,000,000
Multilateral Debt Relief Initiative (MDRI) for IDA15	0.0	91.0	0.0	0
MDRI for IDA16, AfDF12	0.0	83.5	0.0	0
Tropical Forest Conservation Act (TFCA)	16.4	12.0	0.0	0
Subtotal	49.9	186.5	250.0	250,000,000
Technical Assistance				
Treasury Office of Technical Assistance	25.4	27.0	25.4	25,448,000
TOTAL TREASURY REQUEST	2,023.5	2,661.4	2,900.8	2,900,791,902

Summary of Arrears
Multilateral Development Banks
 FY2002 - FY2012
 (Budget Authority; in \$)

MDBs	Arrears end-FY2002	Arrears end-FY2003	Arrears end-FY2004	Arrears end-FY2005	Arrears end-FY2006	Arrears end-FY2007	Arrears end-FY2008	Arrears end-FY2009	Arrears end-FY2010	Arrears end-FY2011	Arrears end-FY2012
IDA	73,015,000	78,540,000	120,727,880	327,527,880	337,027,880	377,877,880	385,572,880	505,572,880	478,072,880	480,542,880	423,042,880
MIGA	10,892,087	9,271,689	8,154,321	8,154,321	6,867,321	6,867,321	6,867,321	6,867,321	6,867,321	6,867,321	6,867,321
AfDF	220,000	10,849,144	16,789,221	29,637,221	30,994,221	32,351,221	33,366,261	39,421,261	40,476,261	86,636,261	109,136,261
AfDB	13,420	42,126	67,315	619,934	2,036,730	3,453,526	1,433,026	631,375	615,239	615,239	615,239
AsDF	133,158,400	138,908,527	98,339,611	102,139,611	118,389,611	134,639,611	175,345,350	185,595,350	195,845,350	311,095,350	326,345,350
AsDB	0	0	0	0	0	0	0	0	0	213,020	212,868
IDB	0	0	0	0	0	0	0	0	0	0	27,022,861
MIF	88,772,000	64,341,172	39,488,672	28,576,672	26,852,572	50,128,472	50,330,972	50,330,972	50,330,972	50,380,972	50,380,972
IIC	16,055,000	22,822,619	47,822,619	47,822,619	46,098,519	46,098,519	46,098,519	46,098,519	41,428,519	20,470,519	15,800,519
IFAD	11,000	104,857	189,339	309,339	459,339	3,609,339	3,683,722	3,683,722	3,683,722	4,243,722	4,243,722
GEF	210,937,600	171,585,848	140,668,364	141,528,364	169,828,364	170,628,364	169,527,644	169,527,644	163,027,644	205,057,644	258,987,644
EBRD	0	232,732	441,776	725,225	10,157	10,157	0	0	0	0	0
TOTAL	533,074,507	496,698,714	472,689,118	687,041,186	738,564,714	825,664,410	872,225,695	1,007,729,044	980,347,908	1,166,122,928	1,222,655,637

Notes:

1. The amount of AfDB arrears (\$615,239) corresponds to the 51 capital shares from GCI-V forfeited by the United States
2. The United States has not had arrears to the IBRD, IFC, IDB FSO or NADBank during the FY2002-FY2012 Period

ECONOMIC GROWTH, NATIONAL SECURITY AND POVERTY REDUCTION

The World Bank Group

International Development Association (IDA) Request: \$1,358.5 million
Second of three installments
Start of current Replenishment: FY 2012

Treasury requests \$1,358.5 million for the second of three annual payments to the Sixteenth Replenishment of the International Development Association (IDA16).

IDA:

- makes highly concessional loans and grants to the world's 79 poorest countries – home to 2.5 billion people, 1.5 billion of whom survive on \$2 a day or less;
- is the single largest source of development finance in the world's poorest countries, and operates across a range of sectors, including primary education, basic health, clean water and sanitation, the environment, infrastructure and agriculture; and
- was ranked “best performer” in aid transparency status in an independent ranking of 58 donor organizations in 2011.¹

IDA's strong leveraging of other donor contributions, coupled with internal World Bank resources, make it an effective organization in which to invest limited U.S. development resources. Every \$1 contribution from the United States leverages almost \$12 in contributions from other donors and internal Bank resources. There are now 52 country donors to IDA.

In 2011, IDA's commitments reached a record \$16.3 billion, funding 230 new operations in 72 countries. This funding led to improved lives for tens of millions of people in all corners of the globe while fostering global stability and promoting U.S. security interests. Specific examples of IDA engagement include:

- A \$300 million IDA loan for the Primary Education Development Program in Bangladesh, expanding on two previous programs that resulted in marked improvements in enrollment and completion rates, achievement of gender parity in access and construction of 30,000 new classrooms.

¹ The ranking appeared in the 2011 “Aid Transparency Index” released by Publish What You Fund, a U.K.-based coalition of civil society organizations working on governance, aid, effectiveness and access to information.

- An \$18 million IDA project in Mongolia that has created a new insurance market to support the 30 percent of Mongolians who are nomadic farmers. This type of risk management has been identified as an essential component of strategies designed to support smallholder farms. Building on the success of the Second Sustainable Livelihoods Project in Mongolia, IDA approved an additional \$11 million credit in 2011 to scale up activities in pastoral risk management and community initiatives, such as health facilities and improved water supply.
- An \$82 million loan to encourage local and foreign currency private financing of a natural gas-fired power plant in Cameroon. The project – owned and operated by U.S.-based AES Corporation – will add over 200 megawatts of generating capacity in Cameroon. The project is an example of how IDA is providing innovative tools to help Africa address its infrastructure needs to spur economic growth.
- A \$22 million IDA credit in Afghanistan to help develop the legal and regulatory regime for the telecommunications sector, which has attracted \$1 billion in private investment and led to a 95 percent decline in the cost of phone calls to 10 cents/minute.

Country-specific results can be found at: http://www.worldbank.org/ida/ida_abc.html.

U.S. Leadership

The United States was the driving force behind the creation of IDA in 1960 and remains its largest shareholder. U.S. funding for IDA has helped save tens of millions of lives, eradicating extreme hunger and poverty around the world while promoting global stability and prosperity. This work helps to support U.S. national security objectives by addressing the root causes of extremism and conflict.

In 2011, we strongly encouraged IDA to support South Sudan's transition to statehood. IDA has responded by providing technical assistance to help the newly independent country build the institutional capacity to take full advantage of its programs once the country completes the steps to becoming an IDA member. In anticipation of engagement by IDA, the World Bank established a \$75 million South Sudan Transition Trust Fund (SSTTF) to help provide health care, infrastructure, and employment for the people of South Sudan.

As part of the IDA16 replenishment negotiations, we supported a Crisis Response Window (CRW) within IDA, designed to provide resources for countries hit by natural disasters (such as Haiti) and severe, external economic shocks, such as global food price spikes or regional financial crises. This past year, IDA was able to mobilize this new window in response to the crisis in the Horn of Africa, a region facing its worst drought in 60 years. IDA mobilized a total of \$1.9 billion in resources for the crisis, including \$250 million in front-loaded financing from the CRW. IDA's response in the Horn of Africa is appropriately balanced between rapid response and the type of long-term recovery and resilience efforts that fall squarely within its area of comparative advantage.

International Bank for Reconstruction and Development (IBRD)**Request: \$187.0 million****Second of five installments for the GCI (\$117.4 million)****First of four installments for the SCI (\$69.6 million)**

Treasury requests \$117.4 million for the second of five installments of the United States capital subscription to the World Bank's General Capital Increase (GCI), which funds the IBRD. Treasury is also requesting \$69.6 million for the first of four installments of the World Bank's Selective Capital Increase (SCI). This is needed to allow the U.S. claim the portion of shares that will preserve our shareholding above the 15 percent veto threshold. With 15.8 percent, the United States is the World Bank's largest shareholder and the only country with a valuable veto over changes to the World Bank's Articles of Agreement.

IBRD:

- is the largest global development institution;
- aims to reduce poverty in middle-income and creditworthy poorer countries, where one-third of the world's people are living on less than \$2 per day live, through loans, guarantees, risk management products, and analytical and advisory services;
- helps poor people gain access to jobs, markets and social services;
- provides financing for essential services such as water, electricity and roads;
- is uniquely positioned to address global challenges, such as food insecurity and environmental degradation; and
- yields healthy returns for U.S. economic, security and humanitarian interests by strengthening new sources of global growth, working effectively with governments to improve governance, accountability and public financial management, and supporting and coordinating post-conflict relief efforts.

IBRD General Capital Increase

In 2010, IBRD shareholders committed to increase the Bank's capital so as to forestall a substantial decrease in lending capacity, from an average of \$15 billion a year to less than \$8 billion a year. The reduced level would be less than a third of even the most conservative projections of demand for Bank funding, and would dramatically curtail the Bank's ability to respond to regional and global challenges.

A key outcome of the capital increase negotiations was a commitment to transfer additional IBRD resources to finance IDA. As a result, each \$1 contributed to capital will leverage nearly \$8 in income transfers from IBRD to IDA, providing a total of \$6.6 billion of internal transfers over the next nine years. Without the capital increase, the dramatic decline in lending would mean that the income from loan reflows needed to support the internal transfers to IDA would be absent—leav-

ing donor nations to shoulder a greater burden for IDA contributions.

U.S. support for the IBRD's capital increase has a strong multiplier effect. Each dollar of U.S. capital supports additional Bank lending of \$25, due to burden-sharing with other shareholders and an increase in the Bank's ability to borrow from markets. This funding will enable the Bank to continue vital work to improve health and educational outcomes and to expand the access of poor people to basic services. For example, between 2005 and 2007, an IBRD project aimed at HIV prevention in the Dominican Republic resulted in a tenfold increase in voluntary HIV testing. A similar project in Jamaica resulted in an increase in voluntary HIV testing from under 30 percent in 2004 to nearly 50 percent in 2008.

In Brazil, the World Bank's Second Bolsa Família Project (\$200 million), approved in 2010, is helping to reduce poverty and inequality. Bolsa Família is the core of Brazil's social safety net strategy. The key project component is the conditional cash transfer that provides grants to mothers or other designated family members, enabling them to access health, education and other services. The project will further improve targeting and integrate other social programs. In Mexico, 6.8 million students received better education when coverage under the Quality Schools Program was increased from 21,000 to 39,000 schools in poor and very poor communities (2006 to 2009). Both these projects demonstrate the IBRD's strength in promoting economic development in key U.S. trading partners: U.S. goods exports to Mexico and Brazil reached nearly \$200 billion in 2010, up from \$153 billion in 2006.

IBRD Selective Capital Increase

The Selective Capital Increase (SCI) is a mechanism to adjust ownership shares of the World Bank to enhance the voice and participation of developing and transition economies in the Bank, while preserving the voice of the very poorest members. The multi-year SCI negotiation was generated by a recognition that the Bank's legitimacy and effective governance required a shift in its ownership structure to better reflect major changes in the global economy. Under the SCI, the U.S. preserves both its relative voting share and position as largest IBRD shareholder, while "overrepresented" countries, principally in Europe, cede voting power to developing countries.

A key outcome of the SCI was to preserve the current shareholding of the United States in the Bank at 15.8 percent, above the threshold of 15 percent, below which we would lose our veto power over amendments to the Bank's Articles of Agreement. This objective is in line with our position as the world's largest economy with a legitimate claim to remain the largest shareholder at the Bank. Failure to fully finance the SCI at \$69.6 million, however, could result in a permanent decrease in U.S. shareholding and voting share, as well as a loss of our veto power.

U.S. Leadership

As the Bank's leading shareholder for more than 65 years, the United States has helped shape the global development agenda, advancing approaches that encompass core American values, such as enabling environments for the private sector, good governance (e.g., transparency and accountability), a more prominent role for civil society, and universal access to health and education.

In the wake of the 2011 “Arab Spring”, the World Bank, in close coordination with the United States, engaged actively in the Middle East and North Africa, providing critical financing and technical assistance in support of the historic transitions underway in the region. In Tunisia, for example, the IBRD provided a \$469 million Development Policy Loan (DPL) to support citizen-demanded governance reforms by the interim government. The IBRD also partnered with the Bank’s private sector window to provide Tunisia with \$50 million from the Micro, Small and Medium Enterprise Facility.

The United States continues to be a vocal advocate for strong fiscal controls at the World Bank. For example, since FY 2006 the World Bank has operated under a flat real administrative budget framework, increasing efficiencies in order to achieve greater value for donor resources. In 2011, the Bank continued this work by strengthening the alignment between its strategic priorities and the allocation of its administrative budget.

African Development Bank Group

African Development Fund (AfDF)

Request: \$195 million

Second of three installments

Start of current replenishment: FY 2012

Treasury requests \$195.0 million for the second of three annual payments to the twelfth replenishment of the African Development Fund (AfDF-12).

AfDF:

- provides highly concessional loans and grants to the 40 poorest countries in Africa to support clean water and sanitation, a cleaner environment, business climate improvements, infrastructure and institutional development;
- supports recovery and rehabilitation in fragile states and war-ravaged communities;
- rewards performance by allocating resources based on results; and
- provides dedicated resources to support regional projects, helping to integrate regions into more economically viable market areas.

U.S. contributions to AfDF provide substantial returns for U.S. economic, security and humanitarian interests, particularly considering that every \$1 provided by the United States leverages \$9 from other donors.

AfDF investments in fragile states are supporting stability in countries such as South Sudan and Liberia, combating conditions that breed terrorism and trans-national crime. Based on her experience as Counter Piracy Taskforce Commander in 2009, Rear Admiral Michelle Howard emphasized in her September 2011 Congressional testimony that responding to trans-national crime in failed states like Somalia pulls U.S. military resources away from other priority missions, such as ballistic missile defense. Rear Admiral Howard also stressed the vital importance of the AfDF and other MDBs in strengthening governance and basic infrastructure in post-conflict states to enable the U.S. military to transition from its security role and return home.

Notable AfDF projects include the Lungi-Port Loko Road in Sierra Leone, which will connect the north and east of the country with the international airport in Lungi. AfDF's Fragile States Facility has also provided critical support to Liberia in recent years, helping to strengthen public financial management and the overall business environment in this transitioning economy.

In addition, AfDF investments in energy and transportation infrastructure are helping reduce bottlenecks that hold back private investment and job growth. For example:

- The AfDF's investment in the Bamako-Dakar road corridor, in Mali and Senegal, is providing strong benefits to communities along the route and is reinforcing regional integration. Associated activities, including the laying of secondary roads, the drilling of boreholes, and the

construction of schools, health clinics and animal rest areas, have made a significant difference in the lives of rural dwellers in the region. The walking distance for women fetching water has been reduced to one kilometer (km) on average, from 5 km previously. The halving of travel times, decline in livestock losses, and drop in travel costs have breathed new life into local agriculture. Illicit fees and charges have fallen considerably, reaching \$140 per truck trip on the Bamako-Dakar corridor, a steep decline from \$351 per truck trip along the prior route.

- The AfDF-financed Nigeria-Benin Interconnection Project linked Nigeria's electricity grid to the already connected grids of Benin, Togo, Ghana, Cote d'Ivoire and Burkina Faso, making supply more reliable. Power from Nigeria now meets over 40 percent of demand in Benin and Togo, and the project helped forge stronger relations among power authorities in the three countries.

AfDF investments in water, sanitation and agricultural infrastructure are helping meet the basic human needs of Africa's poorest communities. Projects completed in 2008-2010 resulted in over 12,000 boreholes and wells drilled and equipped, 750 km in drinking water pipes constructed and nearly 26,000 latrines built. Through these projects, over 8.5 million people benefitted from new or improved access to water and sanitation.

- Water sector projects in Malawi, Mozambique, and Zambia have provided access to clean water and reduced the labor time of women and children, who are the primary collectors of water. There has been a reduction in water-borne diseases, increasing community well-being and productivity. The projects have also directly generated local employment opportunities.
- The Community Agricultural Infrastructure Improvement Program in Uganda is strengthening food security for 2.6 million people in eastern and central Uganda through investments in community access roads, district feeder roads, rural markets, and agro-processing facilities such as coffee hullers, maize mills and milk coolers. Project activities have contributed to dramatically higher farm gate prices of staples like cassava, maize and milk, a 50 percent reduction in travel times and costs, and an estimated 20 percent reduction on post harvest losses, especially for perishables such as cabbage, tomatoes, pineapple and watermelon.

U.S. Leadership

With our strong support, the AfDF has undertaken significant reforms to strengthen institutional effectiveness in recent years, including identification of a limited set of strategic objectives in areas of comparative advantage and the development of a robust Results Measurement Framework.

African Development Bank (AfDB)**Request: \$32.4 million****Second of eight installments for the GCI**

Treasury requests \$32.4 million for the second of eight installments for the AfDB's sixth General Capital Increase (GCI-6).

AfDB:

- serves 46 countries in Sub-Saharan Africa in addition to the Arab Spring countries of North Africa;
- makes public sector loans to middle income countries in Africa where over 400 million people live on less than \$1.25 dollars a day;
- extends private sector loans to both middle- and low-income countries at market-oriented rates that are below what these borrowers could access independently;
- yields healthy returns for U.S. economic, security and humanitarian interests by strengthening new sources of global growth, supporting nascent democracies in North Africa, and lifting people from poverty.

The United States' contribution is generating a substantial increase in the AfDB's sustainable lending capacity, from \$1.8 billion per year (before the GCI) to \$5 billion per year. Our support for the capital increase has a strong multiplier effect, as each additional dollar of U.S. capital supports additional lending of \$20 due to burden-sharing with other shareholders and an increase in the Bank's ability to borrow from markets.

The United States is the African Development Bank's largest non-regional shareholder with a 6 ½ percent voting share. The United States needs to fulfill its financial obligations under the GCI to avoid any dilution of this shareholding, and the associated loss of the privilege of maintaining a single seat on the Executive Board. (The U.S. is the only country with a single seat on the Board of each MDB.)

The AfDB is a leader in supporting transportation and energy infrastructure in middle-income countries on the continent, investments that are critical to unleashing the region's growth potential. For example, the AfDB-financed Marrakech-Agadir highway in Morocco cut travel time between the two cities in half, promoting tourism and agro-industrial development in Grand Agadir and neighboring provinces. The National Rural Roads program has supported construction of 6,700 km of rural roads throughout Morocco, serving to reduce travel times and costs, and leading to higher school attendance and access to health facilities.

In addition to supporting the enabling environment for the private sector through lending to governments for physical infrastructure and strengthening legal, regulatory and financial policies, the AfDB also provides catalytic support directly to private sector projects continent-wide.

AfDB lending to the private sector has grown substantially in recent years, averaging about \$1.5 billion annually in support of projects such as a line of credit to support affordable housing de-

velopment in Uganda, and the Kivu watt integrated-methane gas extraction and power facility in Rwanda. AfDB private sector loans are boosting growth prospects and regional integration on the continent. For example, an AfDB loan of \$14.5 million to the East African Submarine Cable System (EASSy) financed a high-capacity fiber-optic telecommunications network spanning 9,000 km along Africa's east coast, connecting 20 coastal and land-locked African countries and dramatically reducing the cost of voice and data communications. Together with other cable companies, this project has contributed to a 60 percent reduction in bandwidth prices in Tanzania and a 90 percent reduction in wholesale rates by Kenya's largest wholesale provider. Kenya and Tanzania each registered increases over 150 percent in international bandwidth use within six months of the EASSy cable coming into use in 2010.

U.S. Leadership

As the largest non-regional shareholder in the AfDB, the United States championed a number of key institutional reforms during the GCI negotiations. These included adoption of a comprehensive income model to ensure financial sustainability, budget discipline and steady transfers to the soft loan window (the AfDF); increased transparency and disclosure; stronger risk management; and a heightened focus on results. Such reforms are aimed at solidifying the major strides that the AfDB has taken over the past five years to improve its institutional effectiveness by narrowing its strategic focus and strengthening controls on project quality.

In 2011, the AfDB was very responsive to U.S. requests to play a major role in supporting the transitions of the North African countries. For example, working closely with the World Bank, the AfDB supported governance and transparency reforms in Tunisia through a \$500 million budget support loan. The AfDB also provided a \$124 million loan to support water and sanitation improvements in Tunisia's poor rural regions, and \$174 million to finance a key road corridor that will promote economic inclusion within Tunisia and support regional integration across the Mahgreb region. In addition, the AfDB's private sector window provided a \$50 million line of credit for small and medium enterprises in Tunisia. SME development, which provides job opportunities particularly for youth and women, is a critical element of Tunisia's transition to more inclusive economic growth.

Asian Development Bank Group

Asian Development Fund (AsDF)

Request: \$115.3 million

Fourth of four installments

Start of current replenishment: FY 2010

For FY 2013, Treasury requests \$115.3 million for the fourth installment of a four-year commitment under the agreement of the ninth replenishment of the AsDF (AsDF10).

AsDF:

- is the primary source of financing for development in the 15 poorest countries in the Asia-Pacific region, focusing on the construction of critical infrastructure such as roads, water and sanitation infrastructure, electricity grids, and schools;
- is a key source of financing for an additional 13 countries, which are making the critical transition from low- to middle-income status;
- rewards performance by allocating resources based on results; and
- has been recognized by the United States national security community as critical to the success of our political and security objectives in Afghanistan.

Between 2004 and 2010, AsDF operations have generated impressive results. The impact of AsDF projects is exemplified by better access to economic opportunities and social services for more than 211 million people. Over this period, the AsDF has financed the construction and rehabilitation of more than 44,000 km of roads, provided access to clean water for over 2 million households through the installation or rehabilitation of 18,000 km of water supply pipes, and improved industrial productivity and economic growth through the connection of over 1.6 million households and firms to electricity by building or upgrading more than 34,000 km of power transmission and distribution lines. In addition, the AsDF has provided expanded access to quality education for more than 21 million children through the delivery of over 135,000 new or upgraded classrooms and 667,000 trained teachers.

The scope of the AsDF's operations is illustrated by the following project outcomes:

- In 2001, the AsDF began a decade-long project to support microfinance institutions in Papua New Guinea, many of which were barely surviving. Recognizing the importance of a vibrant microfinance sector to stem poverty and help move the population out of subsistence, the AsDF supported the microfinance industry through intensive training and the generation of products designed to meet the needs of the poor and those not served by regular banks. The project brought financial services to over 400,000 new clients in rural areas and helped establish Nationwide Microbank, which now serves more than 100,000 clients through 14 branches.

In addition, the AsDB created an institution to provide support and training to microfinance institutions and set up the country's first credit agency.

- In Lao PDR, the AsDF has helped to introduce innovation and incentives to address a serious widespread problem of poor water supply and unhealthy sanitation conditions in the country's small towns. To improve living conditions in these urban centers, especially for the poor, the project tied the construction of household latrines to the availability of free water supply connections. By amortizing these connection costs through the fees charged for water delivery, and structuring the fees in a way that attracted the majority of town residents, this project made the new water system more affordable. Demand for the connections has been high and the use of basic sanitation facilities in the 12 targeted towns has soared, with significant grant assistance provided to the poorest households to allow them to install their sanitation facilities.
- The \$9.4 million Rural Electrification and Network Expansion Project in Bhutan, which began in 2004, brought electricity to over 8,000 new consumers, including poor households, hospitals and schools. The project included a special feature to provide electrification kits to the poorest households to help address the connection costs and internal wiring for their homes. As a result, children can study in the evening, women have more time to augment family income, and environmental pressure on forests as a source of fuel has abated.

The United States' contribution to AsDF10 is leveraged by a factor of nearly 24 by other funding sources – including that of other donors and net income transfers from the Asian Development Bank – stretching each dollar invested in the AsDF.

U.S. Leadership

The AsDF has been highly responsive to U.S. interests. Management has channeled resources towards infrastructure finance in U.S. priority countries, including Afghanistan, where the AsDF is the third largest donor. For example, in 2011:

- \$754 million was approved to rebuild Afghanistan's shattered road and rail network, bringing to more than \$1.7 billion the amount that the AsDF has contributed to reconstruction of the country's infrastructure over the past decade. The multi-tranche financing facility will upgrade 600 km of priority roads – some 7 percent of the total national and regional highway network. It will also fund construction of new facilities to complement the recently completed train line connecting the northern hub of Mazar-e-Sharif and Uzbekistan. An AsDF project is underway to complete the final section of the Afghan ring road, for which a U.S. company was awarded the \$397 million civil works contract.

Other U.S. priorities adopted by the AsDF in 2010-2011 include:

- introduction of a more systematic process to assess the effectiveness of AsDF operations through the use of impact evaluations;
- more effective implementation of the AsDF's Safeguard Policy Statement by adding more safeguard staff positions at the AsDB, and providing training and tool kits for its developing mem-

ber country stakeholders; and

- promotion of gender equality through increased mainstreaming of gender strategies and sector gender diagnostics in virtually all new country partnership strategies, together with greater senior staff accountability for achieving gender goals.

Asian Development Bank (AsDB)**Request \$106.8 million****Third of five installments for the GCI**

Treasury requests \$106.8 million for the third of five installments of the United States capital subscription to AsDB's GCI. This includes \$213,000 to cover arrears created by the FY 2011 0.2 percent across the board rescission. These arrears have reduced U.S. shareholding below parity with Japan (the AsDB's other largest shareholder), lowering U.S. standing within the institution as a result. Further, a failure to meet this commitment could force us to forfeit these shares to other countries like China, who have been eager to increase their shareholding and influence in the Bank.

AsDB:

- meets important needs in 31 creditworthy developing economies in Asia through the provision of loans, technical support and policy advice;
- extends private sector loans to both middle- and low-income countries at market-oriented rates below what these borrowers could access independently; and
- supports US. economic, security and humanitarian interests by strengthening new sources of global growth through the construction of thousands of schools, bridges, health clinics and roads, providing opportunities for people to lift themselves out of poverty.

The United States and Japan have historically been the Bank's largest shareholders, with 15.7 percent each, though with the shortfall in FY 2011, U.S. shareholding has been temporarily diluted below this level.

In 2009, the AsDB sought support for a General Capital Increase – its first in 15 years – to forestall a dramatic drop in lending from \$10 billion annually to \$4 billion. With the onset of the global financial crisis and a G-20 request for increased lending from the MDBs, shareholders agreed that new capital was necessary to ensure an adequate level of development assistance to the region with the world's largest number of people living in absolute poverty.

Each dollar of U.S. capital supports additional Bank lending of \$20, due to burden-sharing with other shareholders and an increase in the Bank's ability to borrow from markets.

The AsDB is a critical assistance provider in a region of significant strategic and commercial importance. For example, in 2010, the AsDB responded to the heavy flooding in Pakistan – which inundated entire villages and destroyed thousands of hectares of crops – by immediately undertaking an assessment of the flood's impact in conjunction with the World Bank. Recognizing the special vulnerability of women and girls to natural disasters, and the important role they must play in recovery, the AsDB is developing a project that will not only transfer assets and skills to women, but also empower them and include them in public life outside the domestic sphere.

In the Philippines, the AsDB helped the government expand its social protection program and associated sector reforms through a \$400 million project, which was based on globally successful conditional cash transfer programs. More than half a million poor families will benefit.

In Indonesia, the AsDB has supported the provision of key infrastructure to over 36,000 village communities, including building or upgrading more than 40,000 km of rural roads, 9,000 bridges, 1,000 irrigation systems, 10,450 clean water supply units, and 4,822 sanitation units. In addition, the AsDB's support to upgrade urban slums assisted some 180,000 poor urban households in 32 cities, with plans to further provide 2.7 million people with access to improved sanitation.

U.S. Leadership

The AsDB has aligned itself with key U.S. priorities, including support for global economic growth and national security.

The AsDB is providing significant assistance to bolster growth in the region by lending to build critical infrastructure to relieve bottlenecks and to educate and provide health services to growing populations. This region has served as a vital engine of growth for the global markets, with estimated real GDP growth of over 8 percent in 2011. This high growth has fueled demand for U.S. exports to Asian countries, which grew by over 13 percent from 2010 to 2011.

The AsDB's work in Pakistan and throughout Central Asia helps to address U.S. national security interests by tackling poverty, corruption and other potential sources of instability.

U.S. engagement and leadership during the GCI negotiations enabled us to leverage meaningful changes within the Bank to strengthen safeguards, improve internal accountability, measure results, increase civil society participation and direct more resources to the poor.

In 2011 at U.S. urging, the AsDB reviewed its Public Communications Policy to determine ways to increase transparency and accountability to the people it serves. The following reforms were adopted as a result of this review:

- a commitment to disclose audited project financial statements;
- the creation of an independent appeals mechanism for information requests;
- agreement to increase access to Board decision-making through simultaneous disclosure of the majority of Board documents to the Board and the public; and
- better integration of communications plans and information sharing into projects and programs.

Inter-American Development Bank Group

Inter-American Development Bank (IDB)

Request: \$102.0 million

Second of five installments for the GCI

For FY 2013, Treasury is requesting \$102.0 million for the second of five installments for the Inter-American Development Bank's (IDB) ninth General Capital Increase (GCI).

The IDB:

- is the largest source of development financing for Latin America and the Caribbean, a region of significant commercial and strategic importance to the United States;
- provides 26 borrowing member countries close to half of their multilateral financing for major development priorities, including infrastructure, private sector growth, regional integration and social safety nets; and
- buttresses U.S. strategic national security objectives by supporting citizen security initiatives.

The United States supported a recapitalization of the IDB in 2010 to avert a sharp reduction in lending to approximately \$7 billion a year, well below our estimates of the \$12 billion in borrowing needs of member countries. The GCI agreement also secures a total of \$2 billion in grants for Haiti through 2020. With a 30 percent stake, the U.S. is the IDB's largest shareholder and has an effective veto on key governance decisions at the Bank.

The U.S. contributions leverage significant additional resources: every additional dollar of U.S. capital allows lending to increase by over \$10 due to burden-sharing with other shareholders and the Bank's ability to borrow in the markets.

The IDB has been a strong partner for the United States in the region, particularly in Haiti where it is the lead provider of multilateral development assistance. In 2011, through the Haiti Grant Facility, the IDB approved seven projects for \$241 million and financed more than 800 temporary classrooms across 57 sites, built or rehabilitated 160 kilometers of roads, and vaccinated 50 percent of Haitian farmers against swine fever and other diseases.

In addition, the IDB established a Haiti Social Investment Fund with assets totaling \$68 million. This fund will operate for 12 years to provide financing for SMEs by increasing the availability of loans and reducing borrowing costs by offering preferential interest rates. In November, the Bank organized the Second Investment Forum in Port-au-Prince, bringing together over 1,000 entrepreneurs in a massive show of private sector interest in the country's economic potential.

The IDB has also been an important partner in promoting our national security objectives throughout the region. Most notably, the IDB recently announced a pledge of \$500 million over the next two years to support a regional security strategy and citizen security programs in Central America, a key U.S. foreign policy objective. Since 1998, five IDB projects for citizen security with a total cost of \$107 million have been completed, nine projects worth \$274 million are currently being imple-

mented, and nine more are in the 2012 pipeline for \$286 million. The IDB's strong engagement in support of U.S. national security was recognized by Admiral Stavridis who stated that the "IDB plays an important role in the region contributing directly to U.S. strategic interests".

Finally, the IDB is helping to accelerate economic growth in leading markets for U.S. exports. From 2004 to 2009, U.S. exports to the region grew by 86 percent, and are on-track to more than double by 2014.

U.S. Leadership

By virtue of our large shareholding in the institution, the United States exercises strong influence over the Bank's policies and programs, which further strengthens the role of the IDB as a partner in advancing U.S. priorities in the Western Hemisphere. The United States' influence was evident during the capital increase negotiations in which we effectively consolidated key institutional reforms to improve the strategic direction of the IDB. These reforms enabled us to shape important policy outcomes in 2011, including:

- *New sector strategies to address urgent regional needs.* The IDB adopted new sector strategies including: the Integrated Strategy for Climate Change Adaptation and Mitigation, and Sustainable and Renewable Energy; the Strategy on Social Policy for Equity and Productivity; the Strategy to Support Competitive Global and Regional Integration; and the Sector Strategy on Institutions for Growth and Social Welfare, with special emphasis on access to financial markets for small- and medium-sized enterprises.
- *Improved resource management.* The IDB submitted its second budget subject to the discipline of the Income Management Model (IMM) that requires loan charges to cover 90 percent of administrative expenses, while allowing for full support of the \$200 million in annual income transfers to Haiti.
- *New public information policy.* The new Access to Information Policy took effect on January 1, 2011. This policy's provisions meet best international practices in the field, and contain several significant advances with respect to the Bank's previous Information Disclosure Policy. In the first year of implementation, an online system was established to manage information requests; responses have been provided to nearly 1,800 requests received through this system.
- *New Independent Consultation and Investigation Mechanism.* This year was the first full cycle of operations for the new Independent Consultation and Investigation Mechanism (ICIM). An unprecedented milestone was met in relation to the number of requests received and declared eligible. ICIM handled a total of 31 requests (9 in 2010, and 22 received in 2011), 14 of which were declared eligible either for the Consultation Phase or for the Compliance Phase and processed as cases over the course of the year.

FOOD SECURITY

Global Agriculture and Food Security Program (GAFSP)

**Request: \$134 million
Trust Fund Contribution**

For FY 2013, Treasury requests \$134 million for the Global Agriculture and Food Security Program (GAFSP). Launched in April 2010, GAFSP, the multilateral component of the President's Feed the Future initiative, seeks to strengthen food security at the country level by:

- Providing additional financing for low-income countries that demonstrate a comprehensive approach to strengthening food security;
- Aligning the resources of other donors with U.S. global food security priorities;
- Promoting best practices in the transparency of its operations and in the measurement of results.

In its first two years of operation, GAFSP awarded \$481 million in grants to 12 countries in Africa, Asia and Latin America through a competitive process. These initial investments are expected to help 7.5 million smallholder farmers and their families increase their income and strengthen their nutritional outcomes. These awards were possible due to contributions of \$531 million from seven donors – the United States, Canada, Ireland, South Korea, Australia, Spain and the Bill and Melinda Gates Foundation.

The crisis in the Horn of Africa is a stark example of the continued importance of helping low-income countries become more resilient and food secure. In 2012, GAFSP will issue a third call for proposals and is likely to award new grants in the summer of 2012. Implementation of existing grant awards will also continue, with the majority of the first 12 grants disbursing by June 2012.

GAFSP's private sector window should also be fully operational in 2012, using contributions from the United States, Canada and the Netherlands.

U.S. Leadership

The United States has been a driving force behind GAFSP since its inception. We have worked to incorporate important design features in the fund that support high levels of transparency, include the voice of civil society, and closely track the results of GAFSP's investments. Our financial contributions to the fund have also underscored U.S. commitment and have mobilized additional contributions in the last year from Australia, South Korea, and the Netherlands. Key areas of U.S. focus include:

- *Transparency.* GAFSP strives for full transparency in its operations with all project proposals, Steering Committee meeting minutes, and other relevant governance documents posted online (www.gafspfund.org). GAFSP also recently completed its first annual report, which is

also available online. As project result reporting and impact evaluations for individual grants become available, these will also be posted online.

- *Inclusive governance.* Key decisions concerning grant allocations and governance are made by GAFSP's Steering Committee, which is comprised of recipient country representatives, donor partners, civil society organizations, MDBs, and a representative of the UN Secretary General's Office. The discussions have been open and transparent, and minutes are posted online.
- *Results measurement.* The fund has put in place several mechanisms to track results. These include common results indicators for all GAFSP projects that will allow aggregation of results across the GAFSP portfolio, an annual GAFSP report, and the use of rigorous impact evaluations on at least 30 percent of all GAFSP-financed projects.
- *Competition.* Demand for GAFSP resources has been high, with 25 countries applying for grants in the first two calls for proposals. Grant awards have been based on objective criteria including need, the quality of a country's food security strategy and GAFSP proposal, and the policy environment. An independent group of experts, the Technical Advisory Committee, ranks country proposals against these criteria and makes recommendations to the Steering Committee.

**International Fund for
Agricultural Development (IFAD)****Request: \$30 million
First of three installments****Start of current Replenishment: FY 2013**

We request \$30 million for the first of three installments for the Ninth Replenishment of the International Fund for Agricultural Development (IFAD-9).

IFAD:

- serves 138 countries globally, with 40-50 percent of resources dedicated to Sub-Saharan Africa;
- is a small, highly focused development finance institution that provides loans and grants to support smallholder agriculture and rural development, with the aim of improving food security and nutrition in the poorest regions around the globe;
- works with developing country governments, poor rural people's organizations, non-governmental organizations and the private sector to design innovative programs and projects that fit within national priorities for agriculture and rural development.

The U.S. investment of \$30 million will support IFAD programs of about \$1 billion annually. IFAD's projects have a strong track record of improving rural livelihoods. Over 80 percent of IFAD projects completed in 2009 through 2011 achieved positive scores on rural poverty impact, as confirmed by IFAD's Office of Independent Evaluation. This was up from 71 percent in the 2006 through 2008 period. One example of this positive impact is the Support Project for the Transformation of Agriculture in Rwanda, which contributed to increases in meat and milk consumption in the project area, as well as a doubling of yields of rice, maize, beans, cassava and sweet potatoes. These increases resulted from a combination of improved techniques (e.g. soil conservation and cultivation methods) and improved inputs (e.g. seeds and fertilizers).

IFAD program design takes into account the critical importance of women's empowerment in agriculture. Giving women the same access as men to agricultural resources and inputs has the potential to increase production on women's farms by 20 to 30 percent. IFAD's Independent Evaluation Office found that 88 percent of IFAD projects completed in 2009 through 2011 had positive results in addressing rural women's specific needs, and improving their general situation with respect to education, workload, access to credit, and employment opportunities.

For example, IFAD interventions are bringing about important changes in the traditional village society of Mauritania. The Poverty Reduction Project in Aftout South and Karakoro has given women a voice in local decision-making through consultative communal committees that are established under the project and are direct partners of municipal councils. The project's employment of women trainers and the creation of 30 women's cooperatives have had a positive impact on the image of women at the village level.

IFAD programs in fragile states help improve rural livelihoods among people who have lost their farms or businesses during conflict, reducing the sources of conflict and promoting social cohe-

sion and stability. For example, social instability and rebellion in Northern Mali have been a threat to peace over many years, and lack of development is a root cause. Following IFAD's long-term commitment to work in the northern regions at a time when no other donors were willing to engage there, the government of Mali designated IFAD as a lead donor. IFAD projects in Gao, Tombouctou and the pastoral regions of Kidal are working to reduce competition for access to natural resources and improve living conditions of poor rural people.

U.S. Leadership

The United States has been highly effective in encouraging IFAD to improve institutional effectiveness through measures such as stronger in-country project supervision and best-practice transparency policies. During the IFAD-9 replenishment negotiations in 2011, the United States successfully pressed for institutional strengthening in the areas of financial and human resources management and project impact evaluation. For example:

- IFAD's new Chief Financial Officer is modernizing the system for employing IFAD's own internal resources (loan reflows and investment income) to maximize their sustainable use and thereby reduce the burden on donor contributions.
- IFAD is playing a catalyzing role on human resource issues within the UN system, including by freezing administrative staff salaries in 2010 and forcing a UN reevaluation of all Rome-based administrative staff salaries. IFAD is also working within the UN system to pilot a new pay-for-performance model for its staff during the IFAD-9 period.
- IFAD is strengthening measurement of its programs' impacts on child malnutrition, length of hungry season, and household assets by undertaking impact assessments and, in select cases, rigorous project impact evaluations.
- Following recommendations from an independent evaluation, IFAD is developing a corporate gender policy to systematize, intensify and scale up its efforts to close gender gaps and improve the economic and social status of rural women.

WORLD BANK ENVIRONMENTAL TRUST FUNDS

Global Environment Facility (GEF)

Request: \$129.4 million
Third of four installments

Start of current Replenishment: FY 2011

Treasury requests \$129.4 million for the third of four installments to the fifth replenishment of the Global Environment Facility (GEF) covering the period from July 2010 to June 2014.

GEF:

- Is the largest funder of projects to improve the global environment, supporting capacity building and innovative, cost-effective investments whose design and environmental benefits can be replicated by others.
- Provides grants to developing countries for projects addressing biodiversity and conservation, clean energy and sustainable landscapes, international waters, land degradation and desertification, the ozone layer, and persistent organic pollutants.
- Directly benefits the United States by:
 - Reducing harmful, long-lived chemicals such as mercury in U.S. air and water
 - Protecting international marine resources including fish stocks
 - Protecting tropical rainforests and other natural areas that conserve biodiversity and absorb carbon dioxide emissions
 - Developing markets for the export of U.S. environmental technologies
 - Improving U.S. national security by reducing the instability caused by population displacement, declines in global food supply, and major water shortages.

Over its 20 year track record, the GEF has allocated \$10 billion, supplemented by more than \$47 billion in co-financing, for more than 2,800 projects in 168 developing countries and countries with economies in transition. Each dollar contribution from the U.S. leverages \$30 to \$50 in contributions from other donors and co-financiers, including internal resources from implementing agencies, to deliver cost-effective global environmental benefits. Through its Small Grants Program, the GEF has also made more than 13,000 small grants directly to civil society and community-based organizations, totaling \$634 million.

The GEF has achieved significant global environmental benefits, including by:

- *Contributing substantially to the global achievement of 10 percent of the world's land area under protection.* As the largest funding mechanism for conservation areas worldwide, the GEF has invested in the establishment and management of 1,600 protected areas covering nearly 900

million acres, more than twice the size of Alaska. These investments include the world's largest tropical forest conservation program, the Amazon Region Protected Areas in Brazil.

- *Showing how small-scale technology demonstration and dissemination projects can make a difference in the poorest countries.* A \$1.45 million grant to reduce barriers to the import of solar products was recently awarded to Liberia. The program will replace 100,000 kerosene lanterns with solar lanterns with a longer term goal of reaching 200,000 households or approximately 1 million people.
- *Working to reduce environmental degradation and improve food security,* including through limiting land desertification and degradation and promoting sustainable fisheries management. For example, a new \$50 million grant will introduce sustainable management practices for tuna fisheries. Supported by \$270 million in co-financing from public and private partners, including the Food and Agriculture Organization, the World Wildlife Fund, and the International Seafood Sustainability Foundation, the project will lead to restored ecosystems and result in a reduction in illegal, unreported, and unregulated fishing.

“Through this collective partnership of our sustainability allies, we can ensure that proper management systems are successfully developed and we can demonstrate to the world that we don’t need to sacrifice economic development in order to maintain ocean biodiversity.”

-- Christopher Lischewski, Board Chair of the International Seafood Sustainability Foundation, and President and CEO of Bumble Bee Foods

U.S. Leadership

The United States, one of the largest contributors to the GEF Trust Fund, has used its position to advocate successfully for strong fiduciary, environmental, and social safeguards while improving efficiency in the GEF's operations. During the GEF's fifth replenishment negotiations, the U.S. sought and achieved important policy reforms to improve the GEF's effectiveness, particularly with regard to results-based management and country-owned business plans for GEF funding and resource allocation.

Clean Technology Fund (CTF)**Request: \$185 million
Trust Fund Contribution**

CTF:

- Improves global energy security
- Has become the largest vehicle for mobilizing multilateral finance for clean energy
- Delivers value for money: the \$4.3 billion CTF pipeline is attracting co-financing of \$36.7 billion for a leverage ratio of 1:8.6

The CTF improves global energy security by helping developing countries move towards reliable, diversified and more cost-effective energy supplies. Developing countries account for nearly all of the growth in global energy demand, increasing international competition for scarce conventional energy resources. Financing from the CTF mobilizes large-scale investment in clean power, transport, and energy efficiency by helping close the price gap between commercially available clean technologies and the conventional alternatives.

Through the CTF, 15 countries are implementing 63 projects, using \$4.3 billion from the fund to mobilize total planned investments of over \$36 billion. The CTF aims to transform energy sectors in CTF countries by introducing new clean technologies at scale and to crowd-in private investment. To date, \$248 million in CTF funding has leveraged over \$2 billion in direct financing for private sector activities. An excellent example of this is in Turkey, where the EBRD combined \$50 million in funding from the CTF with \$240 million in credit lines to 5 Turkish banks to create a fund that will provide energy efficiency and small-scale renewable investments. Spurred by the CTF experience, EBRD partnered with the same banks and other investors to create a \$1.46 billion fund for larger scale renewable energy and industrial energy efficiency projects. Altogether, the initial CTF contribution of \$50 million is catalyzing \$1.8 billion in investments delivered through the Turkish banking sector by proving the viability of a new market.

CTF investments have spurred economic opportunities for our partners in developing countries. Egypt is using \$150 million in CTF funds along with \$646 million from the World Bank, European Investment Bank and others to construct over 300 km in transmission lines with capacity to transmit 3,000 megawatts of wind power. In Indonesia, which is estimated to have 27,000 megawatts of potential geothermal resources, the IBRD is pairing a \$175 million loan with a \$125 million CTF concessional loan as part of a \$575 million project to develop geothermal power.¹ The project will help Indonesia set up a regulatory framework for geothermal investment, undertake costly exploration, and finance construction in order to catalyze further investments of this major domestic and clean, base load power resource.

The CTF contributes to broader efforts to position the United States as a world leader in the development and manufacture of innovative energy technologies that create jobs in the United States, build and innovate American industry, and expand exports. Through direct investments, technical assistance and capacity building, CTF helps to level the clean energy playing field by creating open, fair and functioning markets in which American businesses can compete and win.

U.S. Leadership

As a result of strong U.S. leadership working closely with other countries, over the past three years, the CTF has become the largest multilateral vehicle for mobilizing clean energy finance. This program is a critical complement to bilateral programs because it enables large-scale investments in energy infrastructure. U.S. efforts ensure that the funds make selective and targeted engagements and promote country ownership, international coordination, value for foreign assistance dollars and private sector participation.

Strategic Climate Fund (SCF)**Request: \$50 million
Trust Fund Contribution**

SCF:

- Pilots ways to manage the environmental drivers of instability in poor countries
- Focuses on clean energy solutions that expand productive capacity in low income countries
- Encourages private sector expansion in clean energy, forestry sectors and adaptation investments

The SCF reduces global instability by combating environmental degradation in developing countries, and by helping the most vulnerable countries prepare for and respond to the impacts of global warming. Deteriorating environmental conditions abroad, including drought, melting glaciers, loss of biodiversity, contaminated waterways, desertification, rising sea levels, and deforestation, pose a long-term threat to our national security as migration, and scarcity of food and water exacerbate instability in vulnerable countries. Left unaddressed, these pressures threaten to roll back significant development gains in many vulnerable countries. SCF investments work to reduce the damage from such threats.

SCF is comprised of three targeted programs. The **Pilot Program for Climate Resilience (PPCR)** is working with 18 highly vulnerable countries to respond to climate change by integrating adaptation into core development planning in sectors such as water management, agriculture, land use and coastal zones and infrastructure. The **Forest Investment Program (FIP)** reduces deforestation in developing countries by addressing its underlying causes. The FIP will work with national governments, the private sector, indigenous peoples and local communities on sustainable management of forests. The FIP will also work to improve forest-related regulation and enforcement to reduce illegal logging, which can undercut the market for products of more responsible producers. This helps to level the playing field for U.S. producers who play by the rules. The **Program for Scaling-up Renewable Energy in Low-Income Countries (SREP)** helps the poorest countries use renewable energy to expand energy access, stimulate economic growth, and reduce vulnerability to energy shocks. SREP projects aim to develop best practices and viable business models for both utility-scale projects and small-scale projects in remote areas that can be used in all developing countries.

Through the SCF, 31 developing countries are accessing \$1.96 billion to mobilize several billion dollars in external financing. The SREP has endorsed 4 investment plans which use \$195 million to mobilize \$1.8 billion in planned investments. For example, Mali will use SREP funds to develop sustainable, renewable energy mini-grids and mini hydro installations in remote communities. Honduras will use \$30 million from SREP to leverage an additional \$242 million in MDB finance, private investment and other public funds to deploy renewable energy connected to the grid and in remote areas.

The FIP recently approved \$40 million in funding for a Mexico project that will pilot, in two large areas selected for replication potential, a multi-sectoral approach aligning forest, agricultural, and

livestock programs and policies.

The PPCR has endorsed 12 investment plans that use about \$800 million in grant and highly concessional loan resources to mobilize at least \$1.7 billion in planned investments. The PPCR and Bangladesh are investing in coastal afforestation and climate resilient embankment infrastructure to protect Bangladeshi citizens and economic assets from extreme coastal weather events. In Niger, \$15 million from the PPCR, coupled with \$59 million of World Bank Group co-financing, will improve water resource management to help Niger adapt to changing climate patterns, increase agricultural production and enhance food security.

DEBT RELIEF

U.S. efforts on debt relief and debt restructuring are fundamental to helping some of the world's poorest countries generate economic growth and reduce poverty and instability. These programs include the Heavily Indebted Poor Countries (HIPC) initiative, the HIPC Trust Fund, the Tropical Forest Conservation Act, and the Multilateral Debt Relief Initiative (MDRI). Over 40 countries, including Haiti, Afghanistan, and Liberia, have benefitted from U.S. debt relief and restructuring programs.

Enhanced Heavily Indebted Poor Countries (HIPC) Initiative

Request: \$250 million

The Enhanced Heavily Indebted Poor Countries (HIPC) initiative was launched in 1999 to provide deeper, broader, and faster debt reduction for the poorest heavily indebted countries that have made real commitments to economic reform and poverty reduction. Countries that demonstrate the performance on economic policies and poverty reduction required to complete the HIPC process also qualify for additional debt relief under the Multilateral Debt Relief Initiative (MDRI), which provides 100 percent debt cancellation on eligible obligations to the International Monetary Fund (IMF), the International Development Association (IDA), and the African Development Fund (AfDF).

With strong U.S. leadership, these multilateral debt relief initiatives have been widely recognized as successes, both in terms of effectiveness and donor follow through. A 2010 DATA report on G-8 debt relief commitments calls them "the clearest examples of a promise fulfilled." In total, 36 out of 40 HIPCs have qualified for HIPC initiative assistance, of which 32 have reached the "completion point" and received irrevocable debt relief from the international financial institutions. They are benefitting from debt relief that, together with MDRI and "beyond HIPC" relief from Paris Club creditors, will lower their stock of debt by over 90 percent, allowing for increased poverty reduction expenditures in areas such as health, education, and rural development. Debt relief committed under the HIPC and MDRI initiatives to date amounts to about \$155 billion in nominal terms.

The FY 2013 budget includes \$250 million to help fulfill the U.S. commitment to the Enhanced HIPC initiative. This request reflects the estimated budget cost of forgiving 100 percent of Sudan's outstanding debt to the United States (currently \$2.4 billion). Sudan is one of three remaining potential HIPC-eligible countries, and developments related to the Comprehensive Peace Agreement (CPA) between Sudan and South Sudan create the prospect for HIPC treatment for Sudan during the FY 2013 period. While HIPC treatment is envisioned for debt assumed by Sudan, this arrangement is a critical component of the CPA, which led to the creation of South Sudan, and is supported by South Sudan. As such, proceeding with HIPC treatment of Sudan's debt at the appropriate time will ultimately help to ensure success for the new country of South Sudan.

However, in making this request, the Administration remains mindful that the situation on the ground in Sudan will have to change dramatically in order for the United States to participate in HIPC debt relief. Along with fulfilling CPA commitments -- including on Abyei, South Kordofan,

and Blue Nile -- progress on Darfur will be necessary. Should Sudan make progress on these conditions, Sudan would also have to be removed from the list of state sponsors of terrorism. Because of these uncertainties, Treasury requests transfer authority for this \$250 million to other multilateral assistance accounts in Treasury's portion of the 150 account, if it is determined that Sudan is not likely to reach HIPC decision point by the end of FY 2014, so that the funds may be put towards other priorities.

Multilateral Debt Relief Initiative (MDRI)**Request: \$0**

Building upon the HIPC initiative, MDRI provides 100 percent cancellation of remaining eligible debts owed to the IMF, IDA and AfDF for countries that complete the HIPC initiative. MDRI is expected to provide over \$53 billion in additional debt relief beyond HIPC to 42 countries.

To make this major debt relief possible, donors committed to offset the cost of MDRI debt relief at IDA and the AfDF on a dollar-for-dollar basis. To meet its share of this effort, the United States has committed, subject to the enactment of appropriations legislation, to provide a total of about \$7.6 billion for IDA and \$1 billion for AfDF over roughly four decades (2006 -2044). The timing of these contributions is spread out over a long period in order to match the period during which these debts would otherwise have been repaid. Internal resources were available to cover the costs at the IMF.

For FY 2013, we expect to rely on “early encashment” credits from our IDA and AfDF payments to partially meet our MDRI commitments for IDA16 and AfDF12. However, we anticipate the need for direct funding in future years since these credits will not be sufficient to fully meet our MDRI commitments. Treasury expects to meet its IDA16 and AfDF12 MDRI commitments by the end of their respective replenishment periods.

TECHNICAL ASSISTANCE

Office of Technical Assistance (OTA)

Request: \$25.4 million

Effective government financial management is a core element of a functioning state. It fosters national economic growth and enables a government to provide better services for its citizens. For over 20 years, Treasury's Office of Technical Assistance (OTA) has been highly successful in helping developing countries worldwide to strengthen their capacity to manage public finances – through efficient revenue collection, well-planned and executed budgets, judicious debt management, fundamentally sound banking systems, and strong controls to combat corruption and economic crimes.

The President's FY 2013 request for OTA provides \$25.4 million to strengthen economic and financial governance in fragile and developing countries. This is equal to the FY 2012 base funding level, but the FY 2013 request does not include funding for Overseas Contingency Operations (OCO) for OTA.

The request supports OTA's focus on five core financial disciplines: revenue policy and administration, budget and financial accountability, government debt issuance and management, banking and financial services, and economic crimes. The President's request enables OTA to maintain its current footprint of technical assistance programs globally, including in priority areas, such as providing more infrastructure finance, increasing access to financial services, and better management of revenues derived from extractive industries, including oil and gas sectors. The request also furthers OTA's efforts to promote regional integration and increased capital flows among countries in East Africa, West Africa, and Central America.

U.S. Leadership

OTA's experts work side-by-side with government officials in finance ministries and central banks in approximately 50 countries around the globe – in Asia, the Middle East, Africa, Latin America and the Caribbean. OTA advisors are engaged in national security priority countries, including Iraq and Afghanistan. They are also helping to increase public financial management effectiveness and remove constraints on economic growth in countries targeted under the President's Partnership for Growth, such as El Salvador, Ghana, the Philippines and Tanzania. By building public financial capacity, OTA's work enables the success and sustainability of other U.S. foreign assistance programs – from agriculture to global health to democracy to conflict prevention. Further, Treasury technical assistance provides countries with the knowledge and skills required to move towards financial self-sufficiency – the capability to raise and better manage their own revenues and eventually to move beyond international aid. OTA programs build a framework for a country's anti-corruption efforts through direct means – mentoring the investigation of financial crimes – and indirect means – improving the professionalism of the civil service.

OTA is recognized as one of the most comprehensive repositories of U.S. Government expertise in financial sector capacity building and one of the greatest values for the U.S. development dollar.

With a relatively modest budget, OTA helps partner countries to safeguard scarce public resources, finance critical services, and achieve sustainable and tangible outcomes that affect peoples' lives.

- In Haiti, OTA, in cooperation with the U.S. Department of Justice (DOJ), increased capacity building at the country's specialized financial law enforcement agencies. These efforts resulted in the longest sentence ever imposed in a case involving the U.S. Foreign Corrupt Practices Act. DOJ singled out evidence-gathering assistance from the Haitian agencies as being instrumental in the case, in which the defendant received a 15-year sentence for his role in a scheme to pay bribes to officials at Haiti Teleco, a state-owned telecommunications company. OTA has been working with the Haitian agencies, including Haiti's Financial Intelligence Unit, since 2008 to improve their ability to investigate corruption and other complex financial crimes.
- In Liberia, OTA, in partnership with the Liberian tax administration, created an anti-corruption investigation unit from the ground up. OTA mentored the organization on everything from personnel policy and organizational structure to case management and standard operating procedures. In its first year of operation, the new investigation unit opened 55 cases and recovered \$76,000 in revenue, an important achievement as the country works to increase domestic revenues to support critical government services to citizens.
- In Afghanistan, OTA mentored and conducted workshops for central ministries and their provincial directorates as part of a pilot budgeting project to link local projects with national priorities. Guidance was developed for provincial plans to elevate them from being "wish lists" and allow them to provide value as inputs to budget formulation.
- In Lesotho, OTA is working to upgrade the investigative capability of the local revenue administration. Efforts have focused on the creation of an organizational structure and development of position descriptions and standard operating procedures for the investigative unit. The unit's effectiveness was evidenced by the successful prosecution of a high profile tax evader, who faces fines and back taxes amounting to \$872,000, important resources to support public programs. The case received considerable attention in the press, maximizing the deterrent effect of the conviction and providing a public relations boost for the revenue agency.
- In Cambodia, OTA is working with the Ministry of Economy and Finance to improve government budgeting, allowing for the decentralization of financial and budget controls to line ministries. The reforms will improve financial accountability for governmental services by making departmental managers responsible for their respective budgets, and improve the transparency of the budget through the inclusion of greater information on the services being provided at the departmental level of the ministries.

To ensure that program resources are wisely allocated and effectively spent, OTA has developed a robust project monitoring and evaluation process. The process features documentation of shared goals between partner country officials and Treasury in each project's Terms of Reference and work plans; regular project reporting to track progress on specific objectives and supporting activities; on-site review by Treasury senior managers; and an annual rating of success in achieving every objective in project work plans. At present, OTA is developing additional mechanisms to strengthen

ties between project plans and results, and provide a structured system for soliciting and utilizing feedback from partner country officials to verify progress against mutually defined goals and objectives.

MDB BASICS

What are the MDBs?

The United States is a member of several multilateral development institutions, including the:

- World Bank
- Inter-American Development Bank
- Asian Development Bank
- African Development Bank
- European Bank for Reconstruction and Development
- International Fund for Agricultural Development
- North American Development Bank

The development banks are not banks in the usual sense. They are owned by member countries and provide financial and technical assistance to emerging markets and developing countries. The United States is the largest shareholder in the World Bank and Inter-American Development Bank, the co-largest shareholder (with Japan) at the Asian Development Bank, and the largest non-regional shareholder of the European Bank for Reconstruction and Development and the African Development Bank.

What is Treasury's role?

In the United States Government, Treasury is charged with leading the United States' engagement in the multilateral development banks. For the five largest institutions, the United States appoints an Executive Director (USED), who is based at the banks and represents U.S. interests. Treasury works closely with the USEDs and a wide-ranging interagency group on development bank issues, with the Department of State and USAID playing important roles as Alternate Governors of the MDBs.

How do the MDBs finance development projects?

Most of the MDBs have two financing facilities, which are frequently referred to as “windows,” from which they make loans and provide grants:

- The “soft loan” window is for concessional lending that provides loans on highly favorable terms (e.g., extremely low or no interest, long repayment periods or grants) to countries that are too poor or unstable to borrow from private markets. These are the “soft loan” or concessional windows for each MDB:
 - International Development Association (World Bank Group)
 - Fund for Special Operations (Inter-American Development Bank)

- Asian Development Fund (Asian Development Bank Group)
- African Development Fund (African Development Bank Group)

Because the European Bank for Reconstruction and Development is private sector-oriented, it does not have a “soft loan” window.

- The “hard loan” window is for non-concessional lending that provides loans to middle-income countries, such as Colombia and Botswana, and some creditworthy low-income countries, such as Indonesia and Nigeria, at market-based interest rates. These are the “hard loan” or non-concessional windows for each MDB:
 - The International Bank for Reconstruction and Development (World Bank)
 - Inter-American Development Bank
 - Asian Development Bank
 - African Development Bank
 - European Bank for Reconstruction and Development

How are the MDBs funded?

Countries are referred to as “shareholders” in an MDB and hold a certain percentage of shares based on their contributions.

At times, shareholders provide new funding to support the hard loan or soft loan windows. This funding can take three forms:

- Capital replenishments
- General capital increases
- Selective capital increases

Capital Replenishments: Because financing for the “soft loan” windows is provided on such generous terms to the very poorest countries, concessional funds need to be replenished every three to four years. When fully funded, U.S. funding commitments are paid out in equal installments over the replenishment period.

General Capital Increases

Under a general capital increase (GCI), MDB shareholder governments agree to increase capital to support the MDBs “hard loan” windows by purchasing additional shares in the institution. Unlike replenishments, GCIs happen infrequently because these windows are largely self-financing. Periodically however, MDBs will seek to bolster their capital in order to increase or sustain lending levels.

The financing arrangements for GCIs are unique. Unlike replenishments, only a small portion of the total commitment is paid directly to an MDB. This portion is called “paid-in” capital, and typically ranges from 5-10 percent of the total increase. The pay-in period often ranges significantly (e.g., from three to eight years).

The remainder of the commitment is made in the form of “callable capital.” Callable capital repre-

sents a financial commitment made by shareholders, but there is no actual transfer of funds. These commitments are meaningful because they enable the MDBs to borrow against them, and, in turn, lend to borrowers at rates lower than what they could obtain in the markets. An MDB can only seek the transfer of callable capital its own accounts in the unlikely event that it becomes unable to access private capital markets or use its own resources to cover obligations on its own loans (i.e., funds borrowed on the market) or on loans it has guaranteed. No MDB has ever made a call on callable capital.

Selective Capital Increases

A selective capital increase (SCI) is not used as, strictly speaking, a fundraising vehicle, but is used to allocate new shares to eligible members based on economic weight, financial contributions and development contributions. An SCI is a means of realigning shareholding to increase the share of developing countries and countries with economies in transition in an MDB's decision making. Unlike a GCI, where shares are allocated to members in proportion to their existing shareholding, an SCI realignment is important to better reflect global trends and ensure that the poorest countries have a voice.

What do new capital commitments mean for the United States?

Negotiations for new capital are not limited to questions of financing needs. In fact, the United States has used the opportunity created by capital increase negotiations to pursue a robust agenda for new policy commitments from the MDB and other shareholders. The United States has consistently used its leadership position to advocate for new initiatives designed to strengthen development effectiveness. Typically, we focus on policies to strengthen transparency, governance, accountability and results. Recently, we have also emphasized the need for policies to strengthen fiscal discipline within the MDBs and protect capital. In addition, we have successfully pressed for MDBs to transfer an increasing share of profits from the hard loan windows to the soft loan windows that support the poorest countries. These transfers achieve two important objectives: they help the MDBs maintain their focus on the neediest borrowers and they reduce the financial burden on shareholders.

What are the implications for failure to meet these U.S. obligations to the MDBs?

GCIs: When a shareholder fails to purchase the shares that it agreed to buy in the capital increase negotiations, the relative shareholding of that country will become diluted. Voting shares are adjusted to reflect contributions as they come in from shareholders, such that delayed contributions will have an impact on the current U.S.'s voting share. Any shares allocated to a country that are not paid for within the allotted subscription period will be moved to the MDB's unallocated capital, potentially making these shares available for other shareholders to acquire. Several countries seeking to expand their influence in the MDBs, have expressed an interest in purchasing shares when they become available in this manner.

Replenishments: Almost two-thirds of U.S. arrears to the MDBs are to the institutions that provide support for the poorest countries (International Development Association, the Asian Development Fund, and the African Development Fund).

Our large and longstanding arrears not only deprive MDB borrowing countries of resources, they also undermine our leadership in these institutions. For example, during the negotiations at the latest replenishment of the GEF, the United States sought to leverage a significant increase in U.S. support in exchange for similarly large increases from other donors. However, other shareholders pointed to the significant U.S. arrears as evidence that the U.S. would not be able to deliver on an increased pledge and scaled back their own pledges accordingly. Similarly, some countries now link their contributions to U.S. payments, which magnifies the impact of any U.S. arrears.