

## **Executive Summary**

The U.S. Department of the Treasury (Treasury) presents this report consistent with section 1701 of the International Financial Institutions Act, as amended by the Omnibus Appropriations Act, 1999 (P.L. 105-277, Div. A §101(d) [Title V, §583]), which directs the Chairman of the National Advisory Council on International Monetary and Financial Policies (designated to be the Secretary of the Treasury pursuant to Executive Order 11269) to report to Congress on six topics:

- (1) An assessment of the effectiveness of the major policies and operations of the international financial institutions;
- (2) The major issues affecting United States participation;
- (3) The major developments in the past year;
- (4) The prospects for the coming year;
- (5) The progress made and steps taken to achieve United States policy goals (including major policy goals embodied in current law) with respect to the international financial institutions; and
- (6) Such data and explanations concerning the effectiveness, operations, and policies of the international financial institutions, such recommendations concerning the international financial institutions, and such other data and material as the Chairman may deem appropriate.

The international financial institutions (IFIs) play an essential role in ensuring financial stability, enhancing global security, promoting economic growth, fighting poverty and addressing climate change, enhancing food security, and responding to other crisis and emergency situations. During the financial crisis, the IFIs mobilized significant resources to support emerging and developing market economies and to buttress trade finance. As a result of their robust response, however, the MDBs faced a funding shortfall, compelling them to seek new financial resources from their member countries or face a precipitous decline in lending levels. As a result, four MDBs concluded General Capital Increase (GCI) negotiations in 2010. These are the first capital increases for many institutions in over two decades. It is critical to retain America's leadership in these vital institutions which advance our national security, national interests and values. Looking ahead, the MDBs also will have an important role in supporting peaceful and orderly transition in Egypt and Tunisia, especially the economic reforms necessary to promote broader gains in living standards.

This report covers the calendar year 2010 and looks at prospects for 2011. It also includes the Report on IDA's Contributions to Graduation consistent with the Foreign Operations, Export Financing, and Related Programs Appropriations Act, 2001 (P.L. 106-429, §101(a) [Title VIII, §803], Nov. 6, 2000; 22 U.S.C. § 262r-6(b)(2)).

## **International Monetary Fund**

### **Key U.S. Policy Goals Advanced by the IMF**

**International Financial Stability:** The International Monetary Fund (IMF) plays a vital role in safeguarding the international financial system and promoting financial stability. It also promotes the key U.S. goal of strong, stable global growth through effective surveillance of the overall global economy as well as individual economies. The IMF played a critical role in the recent financial crisis by mitigating the impact of the crisis and preventing contagion. It was able to respond quickly and flexibly and to provide its members with timely policy advice and financing for those countries experiencing balance of payments crises.

**Effective Surveillance:** Surveillance is at the core of the IMF's mandate. The IMF is charged with providing effective bilateral surveillance over country's policies as well as oversight of the world economy to ensure coordination of policies. The June 2007 Decision on Bilateral Surveillance over Members' Policies (which updated the 1977 Decision on Surveillance over Exchange Rate Policies) provided a framework for strengthening exchange rate surveillance and, since the Decision, the clarity and sophistication of exchange rate assessments in Article IV consultations has improved significantly. Following the global financial crisis, the IMF took steps to strengthen multilateral surveillance, adding new tools such as the Fiscal Monitor and the Early Warning Exercise to better identify risks to the global system. More recently, the Fund has begun taking steps to improve multilateral surveillance, a topic that will be addressed in the upcoming Triennial Surveillance Review, and this year the Fund will also launch a new surveillance product that assesses spillovers from the five largest economies. The United States has continued to press for strengthened surveillance, and Treasury leadership was critical in enabling the IMF Executive Board to reach agreement on the 2007 Decision on Bilateral Surveillance. Treasury has pressed for increased candor, transparency, and evenhandedness of IMF exchange rate surveillance as part of the G-20 Working Group on the International Monetary System. In addition, Treasury has been engaged in a careful multilateral effort in the G-20 and supported by the IMF to establish stronger norms for exchange rate policy and the use of prudential measures to limit risk from large capital flows, and to identify and mitigate sources of future economic imbalances.

**Strong, Sustainable and Balanced Growth:** The IMF is providing support to the G-20 Framework for Strong, Sustainable, and Balanced Growth, through an independent assessment on progress towards external sustainability and timely identification of large imbalances requiring corrective or preventive action; undertaking analysis on appropriate policy responses to capital inflow surges in emerging markets and proposing a framework on managing capital flow volatility; establishing a new metric for assessing reserve adequacy; and strengthening IMF surveillance, particularly exchange rate surveillance, by giving the IMF capacity to influence policy choices, publish its analysis, and provide advice on the appropriate use of prudential tools and policies to adjust large imbalances.

**Transparency/Accountability:** The IMF promotes transparency through its strong data standards, which it collects and publishes. Effective bilateral and multilateral IMF surveillance requires provision of timely, full and accurate data. Transparency is a key determinant of the Fund's effectiveness in contributing to global monetary stability and in building broader economic

knowledge. The IMF's collection and publication of comparable data – including on exchange rates and reserves under the existing mandate – remains a top U.S. priority. The IMF has begun collecting and disseminating comparable cross-country data in new areas, such as the Financial Soundness Indicators, but more progress is needed. In subsequent reviews of data provision for surveillance, the United States would welcome efforts to improve data reporting in areas that promote understanding of cross-border flows and the composition of global foreign exchange reserves.

Budget Discipline: When IMF lending declined in the mid-2000s, the resulting steep drop in income forced IMF management and shareholders to rethink how to place the institution's finances on a sustainable footing. The United States insisted that significant budget cuts accompany any proposed changes to the IMF's income model, and that the IMF move away from relying primarily on lending income to generating funds from various sources. As a result, over 2008-2010 the IMF executed a budget that included a 10 percent staff cut and reduced the annual budget by \$100 million (10 percent of the total budget). This was accomplished despite the intense pressure caused by the global financial crisis. This year, the IMF plans to establish an endowment funded from the proceeds of the sale of its gold resources, which was completed in December 2010. The endowment will be set up to help finance the IMF's operating budget and thus put its finances on a more sustainable path in the long term. The United States will press the IMF to ensure that the endowment incorporates best practices with regard to both investment strategy and governance structure, thus protecting IMF resources.

### **Assessment of the Effectiveness of the IMF's Major Policies and Operations**

The International Monetary Fund (IMF) is a critical forum for multilateral consultation and cooperation on monetary and financial issues, as well as for promoting international financial and monetary policy. In the sections below, we discuss the IMF's critical functions in crisis prevention, response, and resolution, as well as foreign-exchange surveillance and financial-sector surveillance.

Effective crisis response: During the recent global financial crisis, the world confronted the greatest challenge to the global economy in generations. The IMF continues to play a central role in international efforts to resolve and prevent the spread of the global economic and financial crisis by providing its members with timely policy advice and financing for those which are experiencing balance of payments crises. New lending commitments in FY 2009 were more than \$170 billion and over \$66 billion in FY 2010 (ending September 30, 2010).

It is important that the IMF maintains its ability to respond quickly and flexibly to crises when they occur. In 2010, financial stresses in Europe's periphery posed major risks to the global economic and financial system and to the U.S. recovery. Working closely with the European Union, which made funds available to its members through the European Financial Stabilization Mechanism and the European Financial Stability Facility, the IMF has played a key role in lending and policy advice to address financial volatility and establish foundations for fiscal adjustment and structural reforms. Europe will continue to actively manage the challenges faced by countries such as Greece, Portugal, and Spain with support from the IMF.

The United States, in cooperation with the IMF and the broader international financial community, including the G-20, has consistently promoted a strengthened framework for crisis resolution and prevention. In 2009, the IMF created the Flexible Credit Line (FCL) to make it easier for the IMF's strongest-performing emerging market member countries to access resources rapidly to prevent the spread of a crisis. In 2010, the IMF modified this instrument to make more funds available for a longer period of time. Also in 2010, the IMF Board approved FCLs for Mexico, Poland, and Colombia, totaling approximately \$73 billion. Combined with policy actions by authorities in these countries, the FCL instrument is credited with supporting a reduction in risk perception and contributing to stabilization in financial market conditions in those countries.

Finally, a critical component of the international community's response to the global financial crisis was ensuring that the IMF had adequate resources to address the needs of low-income countries (LICs). LICs were impacted by the crisis through sharp drops in exports, foreign direct investment, and remittances. In 2009, the United States strongly advocated, and the IMF Executive Board approved, a package to greatly increase the resources available to LICs and to reform LIC facilities to increase their flexibility. Resources from the sale of IMF gold and other internal sources were mobilized to more than double the Fund's medium-term concessional lending capacity through 2014. Using these resources, the IMF tripled concessional lending in 2009 and early 2010.

Surveillance: IMF surveillance of members' exchange rates is at the core of the IMF's responsibilities. Despite the improvements discussed above that have been made since 2007, the IMF still has scope to perform better in fulfilling the important task of bilateral exchange rate surveillance. Treasury continues to work with the IMF to further strengthen IMF surveillance of exchange rate policies, focusing in particular on increasing the candor and transparency of IMF exchange rate assessments.<sup>1</sup> For the IMF to fulfill its central role in the international monetary system, it must continue to strengthen its efforts to exercise clear surveillance over IMF members' exchange rate policies, and it must be prepared to make tough judgments, especially when evaluating large countries that have systemic implications. Without such candid surveillance, the global imbalances that contributed to the recent crisis risk going unaddressed and posing a threat to future global economic stability.

Most recently, Treasury has pressed for a stronger focus on exchange rates and IMF surveillance as part of the G-20 Working Group on International Monetary System Reform. We have advocated for greater transparency of Fund analysis on exchange rates, enhanced surveillance of external balances, capital flows, and reserve adequacy, and a clearer definition of IMF members' obligations to promote a stable system of exchange rates.

The IMF also has a critical surveillance role in the G-20 Framework for Strong, Sustainable and Balanced Growth (Framework). It was agreed in November 2010 at the G-20 Seoul Summit that the Framework would be strengthened by using the full range of available policies to

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<sup>1</sup> For further discussion on IMF exchange rate surveillance, see link below to Appendix 2: Report to Congress on IMF Bilateral and Multilateral Surveillance over Member's Policies of the Report to Congress on International Economic and Exchange Rate Policies, October 15, 2009 (<http://www.treasury.gov/resource-center/international/exchange-rate-policies/Documents/Appendix%20%20Final%20October%2015%202009.pdf> )

promote external sustainability and reduce large current account imbalances to sustainable levels. The aim of the enhanced Framework process is to foster the global adjustment process that is underway in a manner that protects and strengthens global growth while also reducing external imbalances to manageable levels, thus enhancing the sustainability of the recovery. To offset the need for deficit countries to save more, surplus economies will need to ensure strong growth of domestic demand. If the focus is on external sustainability and the reduction of large imbalances to more sustainable levels, that would prompt the kinds of adjustment policies that the global economy needs.

Indicative guidelines consisting of a range of indicators were developed in the first half of 2011. Using these guidelines has enabled timely identification of large imbalances requiring corrective or preventive action. The first assessment using these guidelines is currently underway.

The IMF has been called on to provide an independent assessment (as part of the Framework) on progress towards external sustainability. The G-20 Finance Ministers will present to Leaders at the G-20 Cannes Summit in November 2011 a report that evaluates the collective consistency of G-20 medium-term policies to meet the goals of strong, sustainable, and balanced growth, and an assessment of progress in meeting commitments made in Seoul.

The IMF also works with other international organizations to promote stronger financial systems around the world. The joint IMF-World Bank Financial Sector Assessment Program (FSAP) has emerged as a critical instrument for financial sector surveillance and advice. Results from the FSAP are used to generate assessments of compliance with key financial sector standards such as the Basel Committee on Banking Supervision's Core Principles for Effective Banking Supervision, the International Organization of Securities Commission's Objectives and Principles of Securities Regulation, and the IMF's own Code of Good Practices on Transparency in Monetary and Financial Policies. The FSAP assessment results are summarized in Financial System Stability Assessments (FSSA), which are often provided to the public.

As of end-September 2010, over 130 countries had completed FSAP assessments or updates and another 35 are in the pipeline or underway. The United States completed an FSAP in July 2010. And in September 2010, it was agreed that financial stability assessments for jurisdictions with systemically important financial sectors, which include the United States, must take place at least once every five years as a mandatory part of Fund surveillance.

### **Major Issues Affecting U.S. Participation in the IMF**

Quotas: The United States participates in the IMF through a quota subscription. Quotas are the metric used by the IMF to assign voting rights, to determine contributions to the IMF's general resources, and to determine access to IMF financing. In April 2008, IMF members reached agreement on a quota reform package as a first step to modernize the IMF's governance structure to keep pace with the rapid growth and greater economic weight of dynamic emerging market countries in the global economy. On June 24, 2009, the Supplemental Appropriations Act, 2009 (Public Law 111-32), was enacted, providing authorization and appropriations for an increase in the U.S. quota share in the IMF by the dollar equivalent of 4.97 billion SDRs (about \$7.71 billion as of June 24, 2009) as well as an increase in the U.S. participation in the New

Arrangements to Borrow (discussed below). This increase in the U.S. quota share was completed in March 2011. At the Pittsburgh Summit in September 2009, G-20 Leaders agreed to further reform in IMF quotas to shift at least five percent to dynamic and underrepresented emerging markets while maintaining the U.S. voting share at above 17 percent, thus preserving our ability to exercise a veto on major governance reforms. As discussed below, a reform package was agreed in the Fall of 2010.

New Arrangements to Borrow (NAB): In addition to quota subscriptions, the IMF maintains multilateral borrowing arrangements with financially strong members. This allows the IMF to obtain temporary supplemental resources when the IMF's existing resources are substantially drawn down in circumstances that threaten the stability of the international monetary system.

In November 2009, existing and potential new NAB participants met in Washington and agreed to amend and increase the NAB by up to \$600 billion. This agreement delivered on the G-20 Leaders' commitment in April 2009 to increase the size of the NAB by up to \$500 billion. As part of this agreement, the United States led the way by committing to increase its participation in the NAB by up to \$100 billion. The expanded NAB became effective on March 11, 2011, and was activated on April 1. U.S. participation in the NAB totals up to SDR 69 billion or about \$110 billion.

### **Major Developments in the Past Year**

Quota Reform: The IMF membership completed the Fourteenth General Quota Review in 2010. Reforming the governance structure of the IMF is a vital step in strengthening the legitimacy and effectiveness of the institution to better reflect today's global economic realities. Quota reform underpins these efforts.

The final quota and governance reform package agreed in November 2010 fully reflects U.S. priorities. First, the U.S. quota share will be virtually unchanged at 17.4 percent, and the U.S. ability to veto key IMF actions will be preserved. Second, the reform package ensures more than a six percent shift in quota shares to dynamic emerging market and developing countries, recognizing their growing role in the global economy, and more than a six percent shift from over-represented to under-represented members. This will result in the four largest emerging market countries (Brazil, Russia, India, and China) moving into the top 10 shareholders of the IMF. The quota shares and voting power of the poorest members will be protected. The quota reform agreement will achieve a doubling of total IMF quotas to approximately \$740 billion by reallocating resources out of the NAB, preserving relative shares in the NAB and ensuring no change in the overall investment by the U.S. in the Fund. This will maintain the quota-based nature of the IMF and its ability to serve its membership in times of crisis. The IMF membership also agreed that a comprehensive review of the current quota formula will be completed by January 2013.

Governance Reform: In November 2010, G-20 leaders also agreed on reforms of the IMF's governance structure that represent a major step forward in making the IMF more effective, credible, and legitimate by better reflecting today's global economy. Securing the legitimacy and good governance of the IMF is vital to our economic and national security interests. Specifically, G-20 leaders committed (and the IMF membership subsequently agreed) to

eliminate two advanced European chairs from the IMF's Executive Board in order to make room for, and provide greater voice to, additional emerging market and developing country chairs.

Strengthening Global Financial Safety Nets/Precautionary Facilities Reform: The IMF refined and expanded its precautionary lending toolkit in 2010. It modified the Flexible Credit Line (FCL) – a precautionary instrument that makes it easier for the IMF's strongest-performing emerging market members to access resources rapidly – to provide greater levels of access to qualifying countries for a longer period of time. The IMF also created the Precautionary Credit Line (PCL), a precautionary instrument for countries with some vulnerabilities which do not qualify for the FCL but are still sound performers. The PCL entails lower access limits and stricter conditionality than the FCL, in order to ensure that IMF resources are safeguarded. Macedonia became the first recipient of a PCL in January 2011. Both instruments have helped to reduce risk perception and contribute to stabilization in financial market conditions.

Post-Catastrophe Debt Relief (PCDR) Trust: In response to the Haiti earthquake, the IMF established the PCDR Trust to provide debt relief for very poor countries hit by the most catastrophic of natural disasters. The purpose of debt relief under the PCDR is to free up additional resources to fill the exceptional balance-of-payments needs arising from the catastrophe and the subsequent economic recovery efforts. The PCDR complements donor assistance and the IMF's concessional financing under the Poverty Reduction and Growth Trust (PRGT). The PCDR financed the elimination of Haiti's entire debt stock to the IMF (about \$268 million) that existed at the time of the 2010 earthquake.

## **Major Prospects for the Coming Year**

International Monetary System: In 2011, the IMF will examine several issues related to the current international monetary system. The G-20 also will be discussing several of these issues in 2011 and the G-20 discussion will be informed primarily by the IMF's work in this area. The key areas to be tackled by the IMF include: managing capital flow volatility, assessing reserve adequacy, and evaluating the remaining scope for further improving financial safety nets (FSNs).

On managing volatile capital flows, the IMF will work to establish a framework to advise member countries, particularly emerging markets, about how to determine the appropriate response to a surge in capital inflows. The IMF seeks to increase its coverage of capital account issues in its standard bilateral surveillance and to provide more consistent advice to member countries. The IMF is also working to establish a new metric for determining reserve adequacy and will work to integrate this metric into its standard surveillance practices. While the IMF has already undertaken significant work to improve FSNs as detailed above, it will be exploring any steps it can take to further this agenda in 2011.

Improving IMF Surveillance: In 2011, the IMF will undertake its Triennial Surveillance Review (TSR) to assess the IMF's recent experience with surveillance and provide recommendations for strengthening future surveillance. The TSR will cover the period from late 2008 through mid-2011 and will focus on both bilateral and multilateral surveillance (in contrast to the 2008 TSR, which concentrated on bilateral surveillance). The final TSR report also will take stock of new surveillance vehicles launched in response to the crisis, such as the Early Warning Exercise, the

Vulnerabilities Exercise for Advanced Economies, and the Fiscal Monitor, and provide feedback on the extent to which these products have strengthened the ability of the Fund to detect risks.

In addition to the TSR, the IMF will launch two new surveillance products in 2011. Spillover reports, aimed at assessing the impact of outward spillovers from countries whose policies significantly affect stability of the system, will be produced for China, the United States, the United Kingdom, Japan, and the euro area, and will be released in conjunction with Article IV reports for each of these in 2011. The Vulnerabilities Exercise, an inter-departmental surveillance tool aimed at identifying underlying vulnerabilities in advanced and emerging economies, will be produced for Low-Income Countries this year. The TSR will take into account these new products and provide preliminary views on these initiatives.



## **Multilateral Development Banks**

The Multilateral Development Banks (MDBs) are instrumental in advancing key U.S. objectives throughout the world in a way that significantly leverages U.S. investments. The MDBs are the most leveraged and sustained assistance tool that the United States has at its disposal. For example, the United States contributed \$420 million to the World Bank during its last replenishment in 1988 and, in the ensuing two decades, this investment supported \$325 billion in cumulative lending towards national security and poverty alleviation priorities. The enormous value that these institutions represent is reflected in the fact that \$3.3 billion in U.S. FY12 contributions will support \$95 billion in MDB lending in FY12, half again as much as our entire 150 account budget.

Historically, the United States has been the largest shareholder at the World Bank, the Asian Development Bank (AsDB), and the Inter-American Development Bank (IDB), and is the largest non-regional shareholder at the other regional development banks. The United States led in the founding of the MDBs, and they have a long history of bipartisan support. As a result of our standing within the MDBs, the United States has exerted strong leadership in shaping the policies and the priorities of these institutions in line with our goals. Strong and effective U.S. leadership in these institutions, made possible by our contributions and support, has shaped exceptional responsiveness by the MDBs to the following key U.S. priorities:

National Security: The MDBs help to support development and reform in countries of strategic importance.

- *Afghanistan:* In Afghanistan, the International Development Association (IDA) of the World Bank Group and the Asian Development Fund (AsDF) are the second and third largest donors after the United States. General David Petraeus has stated, “We need these critical enabling institutions and further U.S. support for them will ensure that they are able to contribute as significantly as they have in the past.”
- *The Middle East and North Africa:* The United States is calling for a renewed engagement by the MDBs in the Middle East and North Africa. The MDBs should help lay the groundwork for more inclusive, sustainable economic growth and private sector job creation in countries such as Egypt and Tunisia. Collectively, MDBs could provide over \$20 billion for Egypt and Tunisia for the period 2011-2013 in support of suitable reform efforts. Given their unparalleled expertise in supporting better governance in developing and transition economies, the MDBs have a comparative advantage in the promotion of these reforms as building blocks for a robust civil society, including accountability, transparency, and good governance.

Supporting poor and vulnerable populations: MDB programs help to cushion the poor against the full impact of external shocks, as demonstrated during the global financial crisis when these institutions augmented support for domestic social safety nets, including education, health, and anti-poverty programs.

Some specific examples include:

- *Haiti*: After the devastating and tragic earthquake that struck Haiti in January 2010, the MDBs rushed to provide rapid relief and assistance to the Haitian people. The World Bank pledged \$479 million to support Haiti, of which two-thirds was delivered within a year. The IADB, as part of the capital increase agreement, has committed to providing \$2.2 billion in grants to Haiti over the coming decade out of its net income, and cancelled all of Haiti's debt and converted future loan disbursements to grants. The International Finance Corporation (IFC) provided \$49.6 million in financing to private business to improve advisory services to foster a better investment climate, improve access to finance and develop management skills for over 600 small businesses.
- *Infrastructure and Market Development in Africa*: The United States is seeking additional focus and investment from the MDBs in African infrastructure. We are focusing especially on regional infrastructure projects, which are urgently needed to support the economic growth required for sustained poverty reduction. We are also urging the MDBs to provide more early-stage financing to develop a pipeline of bankable projects. The MDBs also need to help these countries focus on developing institutional and financial environments that will encourage more private financing as the needs of the continent far exceed the resources that the MDBs can provide.

Critical global priorities: The MDBs are uniquely designed to help us address critical global priorities such as food security and climate change. These complex challenges, which know no geographical boundaries, imperil our prospects for global prosperity and poverty reduction if left unaddressed

- *Food Security*: Food price spikes profoundly affect the stability of fragile nations. For the second time in three years, food prices are at an all time high. Moving forward, global food insecurity has emerged as a cornerstone of development for developing countries. This trend reinforces the vital role of the multilateral Global Agriculture and Food Security Program (GAFSP), a new trust fund housed at the World Bank. Since its launch in April 2010, GAFSP has allocated \$337 million to eight countries – Bangladesh, Ethiopia, Haiti, Mongolia, Niger, Rwanda, Sierra Leone, and Togo.
- *Climate Change*: Climate change is recognized by the U.S. military as a threat that could spur national security challenges. The World Bank has increased lending to renewable energy and energy efficiency projects, and expects to see continued rapid escalation of lending to projects involving clean sources of energy from its own resources and through the trust funds that the Bank administers. The African Development Bank (AfDB) created the Energy, Environment, and Climate Change Department. The AfDB aims to serve as the lead financier for energy-related investments in Africa, while supporting low-carbon development in the continent. In 2010, the AfDB allocated \$1.76 billion to clean energy investments, and advanced new initiatives to promote technology innovation, transfer, and diffusion, including the Asia Clean Technology Exchange. The European Bank for Reconstruction and Development (EBRD) is investing in energy

efficiency and supporting market incentives to encourage the regional transition to a low carbon economy.

U.S. economic growth: By supporting growth in poor and emerging economies, the MDBs are helping to create the next generation of emerging markets for U.S. exports and businesses. MDB assistance has helped emerging markets grow and these countries are now key export markets for the United States.

- *Level playing field for business opportunities*: The MDBs provide critical financing for large infrastructure projects which are needed both to improve lives and improve prospects for economic development. MDBs are uniquely able to invest in large infrastructure projects, and the level playing field for business opportunities created by MDB lending – from which U.S. companies benefit – can stand in contrast to bilateral investments from China, which is often the only alternative available.

The 2010 section on MDBs is divided into two main sections. Section 1, Institutional Reform and Effectiveness, addresses elements that are common across several of the MDBs; Section 2, Multilateral Development Banks: Priorities, Performance, and Reforms, focuses individually on each institution.

#### Section 1: Institutional Reform and Effectiveness

Without question, 2010 was an exceptional year for the MDBs. After their robust response to support countries during the financial crisis, four of the MDBs requested capital increases in 2010 to bolster their depleted resources so that they could resume normal lending operations. These requests coincided with scheduled, recurring replenishments for the special facilities housed at the World Bank and AfDB that provide grants and low-cost loans to the world's poorest countries. As part of these capital increase negotiations, the United States successfully pressed hard for robust reforms focused extensively on ensuring the adoption and strengthening of policies and procedures needed to promote the sound and effective use of resources, including stronger financial discipline, improved governance and accountability, and enhanced development impact and effectiveness. We believe that the MDBs' effectiveness has been strengthened in a positive and enduring way by the adoption of reforms in conjunction with recent capital increase negotiations.

Each MDB also has an independent evaluation department that assesses project effectiveness, which helps to feed into management reforms to improve outcomes. Although all of the MDBs integrate lessons learned into the development of new projects, some of them have taken steps recently to enhance the formal mechanisms of incorporating these lessons at the project development stage. Finally, the MDBs continue to move forward with improvements in the frameworks that they use to design projects and report results.

In general, several recent third party assessments – including a recent report by the Center for Global Development and Brookings and 2008 and 2010 reports on multilateral aid by the Organization for Economic Cooperation Development Assistance Committee – confirmed that

the MDBs are among the most effective development institutions globally, measured across a range of effectiveness indicators such as selectivity, transparency, and focus on the poor.

Some key areas to highlight include:

**Extractive Industries Transparency:** Treasury and U.S. Executive Directors at the international financial institutions (IFIs) have taken every opportunity to stress the importance of resource revenue transparency. The MDBs require all companies to disclose revenues paid to host governments and have provided technical assistance and advisory services to promote extractive industries (EI) transparency. Treasury reports annually on the activities of the IFIs in promoting EI transparency. <http://www.treasury.gov/resource-center/international/development-banks/Documents/Treasury%20Extractive%20Industries%20Report%20June%202010.pdf>

**Safeguards:** Treasury has firmly and successfully pressed the MDBs to reduce the negative footprints associated with their projects, and seek out opportunities to make positive environmental impacts and significantly scale up efforts to help borrowing countries address the impact of climate change. Treasury also has urged the MDBs to substantially reduce support for coal projects. <http://www.treasury.gov/resource-center/international/development-banks/Pages/guidance.aspx>

Treasury reports annually on MDBs and the environment (including climate change), developments in MDB environmental safeguards, changes in MDB inspection mechanisms, outcomes of key inspections, and U.S. votes on environmental grounds on MDB projects. <http://www.treasury.gov/resource-center/international/development-banks/Documents/2009%20MDB%20Environment%20Report%20to%20Congress.pdf>

**Accountability:** In 2010, there were several developments leading to improved accountability at the MDBs. For example, the AfDB revised its Operating Rules and Procedures of the Independent Review Mechanism to increase the independence of the mechanism and to simplify the procedure for submitting a complaint. In March 2010, the EBRD adopted a new accountability mechanism, called the Project Complaint Mechanism (PCM), which replaced the Independent Recourse Mechanism that had been in place since July 2004. The PCM was established to assess and review complaints about bank-financed projects independently from banking operations. Also of note, the IDB Board reformed the Bank's Inspection Mechanism to assure its independence, mandate, and accessibility. As a result, stakeholders will be able to ensure that all IDB projects meet the standards of the IDB's own policies, which is a vital element of accountability.

Below we summarize major developments and coming prospects for each institution, with a description of progress made and steps taken to achieve U.S. policy goals.

## Section 2: Multilateral Development Banks: Priorities, Performance, and Reforms

### WORLD BANK GROUP

**The Year Ahead:** Key developments that we are monitoring closely in the coming year include the introduction of new lending instruments, with an interest in elevating the importance of results and updated policies. The World Bank will play a major role in supporting economic transformation in the transition countries of the Middle East and North Africa, where the Bank could provide up to \$3.25 billion to support Egypt and Tunisia over the coming year. The World Bank has embarked on a two-year process of updating and consolidating its environmental and social safeguard policies into an integrated environmental and social policy framework. The World Bank is also preparing an updated energy sector strategy. The United States is working with the Bank to ensure that the strategy reinforces our efforts to promote lower carbon development paths. For example, our 2009 guidance to MDBs for engaging with developing countries on coal-fired power generation is helping to shape the World Bank's views on lending for such projects.

In addition, the development of the "World Bank Framework and IFC Strategy for Engagement in the Palm Oil Sector" will guide future engagement in the sector following the September 2009 moratorium on new investments in palm oil, which presents significant social and environmental risks. The United States is also seeking to strengthen the IFC's environmental and social performance standards and, in the coming year, the IFC will update its Policy and Performance Standards on Environmental and Social Sustainability and its Access to Information Policy. . As a result of our efforts, the new disclosure policy is expected to result in IFC disclosing more project-level information, including on environmental, social, and development outcomes during all stages of the project.

**Bank Performance over the Past Year:** In World Bank fiscal year 2010 (July 2009-June 2010), the World Bank Group provided \$75 billion in new commitments. This assistance included:

- *\$44 billion by the International Bank from Reconstruction and Development (IBRD) in loans and technical assistance to middle income countries, where 70 percent of the world's poor live.* Latin America and the Caribbean received the greatest share of IBRD's new lending, with \$13.7 billion, followed by Europe and Central Asia with \$10.2 billion, and South Asia with \$6.7 billion. Among sectors, the Energy and Mining sector received the highest share of commitments (20 percent), followed by the Finance sector (19 percent) and the Public Administration, Law, and Justice sector (18 percent). The themes receiving the largest commitments were Financial and Private Sector Development (\$15.6 billion), Human Development (\$5.6 billion), and Public Sector Governance (\$4.6 billion).
- *\$14.5 billion by the International Development Association (IDA) in highly concessional credits and grants to the 79 poorest countries, including 39 in Africa.* In FY10, Africa received \$7.2 billion, or 49 percent of total IDA commitments. South Asia (\$4.6 billion) and East Asia (\$1.7 billion) also received large shares of committed funding. India and Vietnam were the largest single country recipients of IDA funding in FY10. Commitments for

infrastructure rose to \$5.3 billion this fiscal year, a nine percent increase over FY2009. The sectors receiving the largest commitments were Public Administration, Law, and Justice (\$2.7 billion) and Health and Social Services (\$2.1 billion). The themes receiving the largest commitments were Human Development (\$2.9 billion), Rural Development (\$2.6 billion), and Financial and Private Sector Development (\$2.1 billion).

- *\$12.6 billion in investments by the International Finance Corporation (IFC), the private sector arm of the World Bank, to support the private sector in developing countries.* IFC increased its investments in the poorest countries and delivered over \$18 billion of financing, including funds mobilized from the private sector. IFC deepened its engagement with the poorest countries by providing, not only investments, but also technical advice and contributions to IDA's replenishment.
- *\$1.5 billion in guarantees by the Multilateral Investment Guarantee Agency (MIGA) to provide political risk insurance.* MIGA guarantees against losses related to currency transfer restrictions, expropriation, war and civil disturbance, breach of contract, and non-honoring of sovereign financial obligations. In FY10, MIGA targeted a wide range of projects across all regions – from bank liquidity in Serbia and Latvia, to guarantees on complex port projects in Turkey, China, and Senegal, and support for investments in frontier markets such as Sierra Leone and Ethiopia. MIGA also continued to support financial flows from banks to their subsidiaries in Europe and Central Asia which were harmed by the financial crisis. In addition, MIGA entered the emerging-market private equity business by providing conditional guarantees for funds seeking to raise private capital. The agency signed its third contract with a private equity fund this year. All three funds focus on small-scale investments in sub-Saharan Africa.

The World Bank is steadily strengthening its processes for measuring and generating results. Specifically, the Bank is adopting a results framework that has been applied by IDA (the Bank's concessional window) to its much larger hard loan facility. In addition, management, for the first time, agreed to implement a corporate scorecard to assess the Bank's performance and report on development results across the institution. Finally, the Bank is moving forward with human resource reforms to more strongly link the performance evaluation process with results.

### **General Capital Increase and Key Institutional Reforms:**

World Bank/IBRD: In April 2010, Governors endorsed a general capital increase (GCI) for the IBRD of \$58.4 billion, of which six percent, or \$3.5 billion, is in the form of paid-in capital. They also endorsed a package of agreed reforms to voice and participation, including a selective capital increase of \$27.8 billion, of which \$1.6 billion would be paid in. The paid-in portion of the U.S. share of these capital increases is \$866 million over five years. Reform commitments negotiated as part of the GCI included:

- *IDA Transfers:* Shareholders agreed to a new rules-based approach to net-income transfers from the IBRD to IDA, which will help make support to IDA more predictable and sustainable while maintaining prudent reserve levels. This helped to ensure that total internal resources devoted to the sixteenth replenishment of IDA (IDA-16) will increase by at least 40

percent over the fifteenth replenishment of IDA (IDA-15). The World Bank will maintain its robust transfers of income to the concessional window of \$2 billion over three years.

- **Budget Discipline:** The World Bank agreed to overhaul its budget process to ensure that decisions on pricing, compensation, and administrative costs are closely integrated and aligned with the Bank's strategic priorities. The Bank agreed to synchronize year-end discussions on budget, pricing, and net income by fiscal year-end 2010. The Bank also agreed to develop pricing principles that link loan pricing to lending-related cost coverage by fiscal year-end 2010. Loan pricing principles have been developed to link pricing to lending-related administrative costs, while discussion around coverage of additional costs is ongoing.
- **Managing for Results:** The World Bank agreed to better align internal resources to support the strategy to address the Bank's comparative advantages for supporting poverty reduction and economic development. Management, for the first time, has agreed to implement a corporate scorecard to assess the Bank's performance and report on development results across the institution.
- **Human Resources:** The World Bank adopted human resource reforms to more strongly link the performance evaluation process with results. Reforms will continue to focus on managing for high performance and realizing the potential of Bank staff through investment in their professional development. Crucially, a system for identifying and supporting leadership talent has been re-introduced, building on recent efforts to ensure that strong pipelines are available for all key positions. The governance and focus of the Bank's learning agenda will be overhauled to better support managers and high potential staff in developing needed leadership and management skills. Enhancements will be made to the Bank's performance management processes and tools, and to the hiring process.

More information on the World Bank's reform agenda can be found at [http://siteresources.worldbank.org/DEVCOMMINT/Documentation/22553917/DC2010-0004\(4\)InternalReform.pdf](http://siteresources.worldbank.org/DEVCOMMINT/Documentation/22553917/DC2010-0004(4)InternalReform.pdf). Additional information is contained in the paper: *Strengthening Governance and Accountability - Review, Results, and Roadmap*, which can be found at [http://siteresources.worldbank.org/DEVCOMMINT/Documentation/22553919/DC2010-0007\(E\)Governance.pdf](http://siteresources.worldbank.org/DEVCOMMINT/Documentation/22553919/DC2010-0007(E)Governance.pdf).

**International Finance Corporation:** In July 2010, the IFC Executive Directors recommended that the Board of Governors formally approve a \$200 million Selective Capital Increase (SCI) consisting of \$70 million in unallocated shares and \$130 million worth of new shares. This will increase the representation of developing members from 33.41 percent to 39.48 percent. The United States will not participate in the SCI, and as a result our share will decline from 24 percent to 21 percent. This decline, however, will not materially affect our rights at the IFC. Details of the SCI can be found in the Condensed Consolidated Statements – September 30, 2010, at [http://www.ifc.org/ifcext/treasury.nsf/AttachmentsByTitle/FinancialStatementsFY11-Q1/\\$FILE/IFC+-+FY11+Q1+financials.pdf](http://www.ifc.org/ifcext/treasury.nsf/AttachmentsByTitle/FinancialStatementsFY11-Q1/$FILE/IFC+-+FY11+Q1+financials.pdf).

**IDA Replenishment:** The International Development Association (IDA) is the World Bank Group's concessional window for poor countries. It has a three-year replenishment cycle in which fresh resources are contributed to support grants and concessional arrangements for its

countries of operation. In December 2010, IDA Deputies from 51 donor countries concluded negotiations for the sixteenth replenishment of IDA. The IDA-16 replenishment mobilized a total of \$49.2 billion in development resources for the world's 79 poorest countries for the three-year IDA-16 period (mid-2011 through mid-2014). This is a 20 percent increase over IDA-15 resources. The U.S. share of the replenishment is 8.3 percent (\$4.1 billion), compared to 8.9 percent (\$3.7 billion) for IDA-15. IDA will enhance its approach to gender, climate change, and fragile states in its policy framework, project design, and country dialogue. IDA-16 will introduce a \$2 billion crisis response window 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. The final report on IDA-16 and other relevant documents can be found at <http://go.worldbank.org/O5NIRLMEE0>.

### AFRICAN DEVELOPMENT BANK

**The Year Ahead:** The African Development Bank (AfDB) has an ambitious agenda that addresses several key U.S. priorities. The AfDB will also play a key role in Egypt and Tunisia, and can provide up to \$3 billion over the next 18 months to support transition in these vital countries. The AfDB plans to strengthen disclosure requirements to meet the highest standards of other multilateral institutions, including the release of project results, an increased presumption that information should be disclosed, the release of board meeting minutes, and more routine posting of bank documents on its Web site. The AfDB is also committed to improving risk management practices by establishing a credit committee, and elevating and consolidating the risk function under a Head of Risk. These are important steps to address vulnerabilities. The Bank will explicitly define its “risk appetite” to underscore the trade-offs between lending to the private sector in fragile, low-income economies and maintaining its capital base into the future. The Bank also will ensure its ability to undertake an increasing number of audits and investigations as its loan portfolio expands.

In addition, the AfDB is establishing a comprehensive income model by providing a cohesive framework to lock in transfers to its concessional window (AfDF) and promoting financial sustainability through coordinated decisions on reserve accumulation, lending levels, loan pricing, and the administrative budget. It is also strengthening performance metrics through the expansion of the Results Framework into a bank-wide effort and increased automated results reporting. The Bank is also developing specific performance metrics that will guide resource allocation for regional projects. Finally, we are looking for revisions to the environmental and social safeguards policy, in consultation with civil society organizations, to ensure that the environmental and social impacts of investment projects are appropriately assessed and mitigated.

**Bank Performance over the Past Year:** The AfDB Group committed \$6 billion in CY2010, of which \$1.7 billion was sovereign lending to middle income countries, \$1.6 billion was for in private sector operations in both middle and low income countries, and \$2.2 billion was committed by the AfDF for the poorest countries in Africa. AfDB Group lending in 2010 includes \$2.3 billion to North Africa, \$0.9 billion to West Africa, \$0.9 billion to East Africa, \$0.8 billion to South Africa, and \$0.4 billion to Central Africa. The large majority of AfDB



Group lending – \$2.3 billion – was for infrastructure (including regional infrastructure). The AfDB Group also provided \$0.5 billion for the financial sector, \$0.3 billion for industry, \$0.2 billion for the social sector, and \$0.1 billion for multi-sector projects.

**General Capital Increase and Key Institutional Reforms:** In May 2010, the AfDB Board of Governors endorsed a tripling of the Bank’s capital resources from UA 24 billion (\$38 billion) to UA 67.7 billion (\$106 billion). The paid-in portion of the U.S. share of this capital increase is \$264 million. AfDB Management and shareholders agreed to significant reform commitments as part of the GCI, including:

- *Managing for Results:* The AfDB adopted the “One Bank” Results Measurement Framework that includes indicators to measure policy-based operations, regional operations, and private sector operations as part of a single reporting framework that covers all of the Bank’s interventions. For better alignment with country outcomes, the framework incorporates a set of intermediate outcomes that can be linked to the Bank’s programs. The AfDB also made progress in firming up tools and procedures for enhancing the quality-at-entry of Bank operations and country strategies.
- *Income Management:* The AfDB adopted a new loan pricing system that will restore the financial integrity of the AfDB’s sovereign loan pricing model. Periodic reviews will ensure that loan charges are sufficient to cover operating costs, build reserves, and contribute to low-income country support.

Detailed information relating to the capital increase and reform agenda can be found at <http://www.afdb.org/en/topics-and-sectors/topics/capital-increase/documents/>.

**African Development Fund Replenishment:** The African Development Fund is the African Development Bank’s concessional window for poor countries. It has a three-year replenishment cycle in which fresh resources are contributed to support grants and concessional arrangements for its countries of operation. In September 2010, donors agreed on a replenishment level for the twelfth replenishment of the AfDF (AfDF-12) of UA 6.1 billion (\$9.5 billion) for the three-year period (2011 through 2013). The replenishment represents a 10.6 percent increase in donor contributions over AfDF-11. The U.S. pledge for AfDF-12 is \$585 million. This corresponds to an increase in the U.S. share of the replenishment from 8.1 percent for AfDF-11 to 9.6 percent for AfDF-12. This small increase in the U.S. share supports our objective of reasserting U.S. leadership in the AfDF, where we had previously fallen from the position of top donor to fourth largest donor. The Bank agreed to be more selective about fast-disbursing “policy-based operations” in lower performing countries where fiduciary risks are high and development results have been disappointing. The Bank will devote greater attention to climate change and food security as cross-cutting themes to be pursued within the AfDF’s infrastructure and regional integration activities. Documents relating to the replenishment can be found at <http://www.afdb.org/en/about-us/african-development-fund-adf/adf-12/adf-12-replenishment/>.

## ASIAN DEVELOPMENT BANK

**The Year Ahead:** Unlike the other MDBs, the Asian Development Bank (AsDB) underwent capital increase negotiations in 2009, one year ahead of the others. The AsDB will begin negotiations for the tenth replenishment of the Asian Development Fund (AsDF-11) in September 2011. Major objectives for the U.S. include: ensuring sufficient resources for our national security priorities, such as Afghanistan; upgrading the AsDB's impact evaluation capabilities; and ensuring the most efficient use of existing resources in the AsDF.

**Bank Performance over the Past Year:** In CY 2010, the AsDB committed \$10.5 billion, and the AsDF (the Bank's concessional arm) committed \$3.4 billion. Total operations, including co-financing, guarantees, and technical assistance, reached \$17.5 billion in 2010. Environmental sustainability was a key priority in AsDB operations. Fully 51 projects in 2010 had environmental sustainability as a theme, totaling \$5 billion in approvals, a 55 percent increase over 2009. In addition, the AsDB provided critical support to U.S. foreign policy priorities. For example, Afghanistan received commitments of \$250 million per year from the AsDF, all in the form of grants.

**General Capital Increase and Key Institutional Reforms:** The AsDB continued to implement reforms negotiated as part of its GCI agreement in 2009. This included formalizing principles for the selection of the outside auditor, upgrading the capacity of the AsDB's Risk Management Office, and strengthening the Bank's human resources practices. The AsDB also joined an agreement for cross debarment of firms and individuals between MDBs. In addition, the AsDB initiated reviews of two major policies important to operational effectiveness, to be completed in 2011: 1) the Public Communications Policy; and 2) the Accountability Mechanism. In both cases, the reviews include a period of public consultation.

Detailed information on the GCI and reform agenda can be found at:  
<http://www.adb.org/Documents/Brochures/InFocus/gci.asp>.

## EUROPEAN BANK FOR RECONSTRUCTION AND DEVELOPMENT

**The Year Ahead:** The EBRD is in the process of determining how it can engage in the Middle East and North Africa to support emerging democratic states that seek to transition to more market-oriented economies. The Treasury Department will be heavily engaged in this process to help ensure that it unfolds in line with key U.S. priorities. Shareholders will focus on the integrity of EBRD operations during the upcoming review of the Bank's information security policy, as well as the review of the code of conduct for members of the Board. In addition, shareholders will revise the Bank's public information policy in order to improve the transparency and accountability of Bank operations.

**Bank Performance over the Past Year:** In response to the continuing effects of the financial crisis, the EBRD committed \$11.9 billion in loans and equity in 2010, an increase of 15 percent compared with 2009. The Bank also achieved a record number of projects, with 386 operations – an increase of 24 percent compared with 2009. Although the number of projects increased, the average project size dropped by nine percent, reflecting a concerted effort by the EBRD to reach

out to smaller enterprises with more limited access to finance. EBRD focused on increasing the proportion of investments in early transition countries, which accounted for nearly 30 percent of the EBRD investment operations, and the western Balkans, which accounted for a further 18 percent of EBRD investment operations. The mobilization ratio increased from 1.3 in 2009 to 1.5 in 2010 (i.e., for every dollar invested by the EBRD, the Bank mobilized an additional \$1.5 from other sources).

The effectiveness of EBRD's operations continued to be supported by an *ex-ante* assessment of a project's likely impact on transition that is conducted by the Chief Economist's Office, which provides an independent rating that is shared with the Board. This mechanism provides a critical incentive in the project development phase to formulate projects that are fully aligned with the Bank's transition mandate.

**General Capital Increase and Key Institutional Reforms:** In May 2010, the EBRD Board of Governors agreed to a capital increase of €10 billion (\$14 billion) to respond to post-crisis demand. The capital increase consists of a €1 billion (\$1.4 billion) transfer from unallocated reserves to paid-in capital, and a €9 billion (\$12.5 billion) increase in temporary callable capital, subject to redemption once the extraordinary needs of the financial crisis have abated. The U.S. share of this temporary callable increase is approximately \$1.2 billion. As part of the agreement, the United States pushed for renewed commitment to graduate the most advanced central European countries (the EU-7).<sup>2</sup> Details of the capital increase and reform agenda can be found in the Fourth Capital Resources Review (CRR4) 2011-2015 at <http://www.ebrd.com/downloads/policies/capital/crr1115.pdf>.

In addition, the United States persuaded the EBRD to update and formalize its policy on providing financing to entities that produce or trade in goods and services utilized by the military in any country. The Bank had not previously provided definitions and guidelines for its long-standing policy prohibition regarding the financing of military-related activities or production. The new guidelines clarify how to assess transactions involving products that have both military and civilian uses.

## INTER-AMERICAN DEVELOPMENT BANK

**The Year Ahead:** Key priorities for the Inter-American Development Bank (IDB) in the coming year include careful attention to the time-bound schedule of reforms that were agreed to as part of the capital increase negotiations. Specific reforms that are due in the coming year include:

- The IDB will develop a methodology for macroeconomic sustainability analysis to minimize the risk of lending in unsustainable economic climate.
- The IDB will develop an action plan in response to the report by the Independent Advisory Group on Sustainability. This report contains a number of recommendations on how to strengthen implementation of the IDB's environmental and social safeguards, and more broadly on how to promote sustainable development.

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<sup>2</sup> Estonia, Latvia, Lithuania, Poland, Slovakia, Hungary, and Slovenia.

**Bank Performance over the Past Year:** The IDB committed \$12.7 billion in loans and grants in 2010. The IDB approved a record number of projects (170) last year. Of total lending, 42 percent targeted infrastructure and environmental sectors. The Bank also raised the percentage of lending to its smaller and poorer borrowers to 33 percent of total lending in 2010, as compared to 24 percent in 2009.

The IDB has been one of the most committed partners in leading reconstruction efforts in Haiti after the devastating 2010 earthquake, disbursing a record \$177 million last year for critical projects in priority sectors.

2010 was a watershed year for the IDB in terms of promoting reforms to support the effectiveness of its assistance. Specifically, the Bank established a new “development effectiveness matrix” (DEM) in collaboration with its independent evaluation office. This new mechanism will help ensure the quality of the Bank’s loan portfolio, allowing only projects that meet a quantitative minimum development effectiveness threshold to be presented to the Board of Directors. A cost-benefit analysis, a monitoring and evaluation plan, and an assessment of project risks are among the components of the DEM.

**General Capital Increase and Key Institutional Reforms:** In July 2010, the IDB Governors approved the Ninth General Capital Increase (IDB-9) of \$70 billion, of which \$1.7 billion will be paid-in. The paid-in portion of the U.S. share of the GCI is \$510 million. This 70 percent increase in the IDB’s capital will enable the Bank to lend approximately \$12 billion annually. This almost doubles the Bank’s pre-crisis capacity to lend, and is the first capital increase since 1994. The Governors also agreed to provide an additional \$479 million to replenish the Fund for Special Operations (FSO), which provides concessional financing to the region’s poorest five countries, including Haiti. Reform commitments included:

- *Managing for Results:* As discussed above, the IDB adopted a new development effectiveness matrix (DEM) that employs stronger metrics and holds the Bank accountable by making the findings available to the public.
- *Budget Discipline:* The IDB adopted a new Income Management Model (IMM), which instills a new discipline to the Bank’s fiscal operations and preserves the financial soundness of the Bank. The IMM allows for minimum transfers of \$200 million annually to a grant facility for Haiti, providing desperately needed resources to one of the hemisphere’s countries in greatest need of assistance.
- *Improved Disclosure:* The IDB adopted a new disclosure policy that is consistent with the highest standards applied by other MDBs. The new policy replaces a “positive list” of disclosed policies with a limited “negative list” and establishes an independent appeals mechanism. Other changes include: a presumption of disclosure; the release of Board/Committee minutes; and voluntary disclosure of Executive Directors’ statements and disclosure of project-level results.

The report on the GCI and reform agenda can be found at <http://idbdocs.iadb.org/wsdocs/getdocument.aspx?docnum=35291148>.

## INTERNATIONAL FUND FOR AGRICULTURE AND DEVELOPMENT

**The Year Ahead:** Shareholders will have consultations on the ninth replenishment for the International Fund for Agriculture and Development (IFAD) in 2011. Areas of focus for IFAD-9 will include sustainability, efficiency, and human resource management. The Board will review IFAD's engagement with middle income countries. Under the IFAD-8 Replenishment, management was asked to develop a differentiated country approach and a graduation policy for middle income countries.

**Fund Performance over the Past Year:** IFAD committed \$845.6 million in loans and grants to fund rural development projects helping some of the poorest and improving food security. Most of IFAD's financing was highly concessional or on a grant basis to the poorest countries. IFAD mobilized \$1.6 billion in co-financing, an increase of 140 percent over 2009. Over 50 percent of IFAD's commitments were in Sub-Saharan Africa.

**Key Institutional Reforms:** In 2010, IFAD also adopted a new Climate Change Strategy under which climate-related risks will be integrated more systematically into IFAD's rural development programs. IFAD will assess climate-related risks and opportunities in a wider development context including other environment-related issues, such as population pressures or local pollution.

In addition, IFAD concluded two important reforms to strengthen its operations and oversight. First, it adopted a new policy on disclosure of documents that meets the standard of best practice among the international financial institutions by including a presumption of disclosure, a small negative list, and an appeals process. And second, IFAD revised its Project Procurement Guidelines to bring them into compliance with the World Bank's existing international competitive bidding standards.

## NORTH AMERICAN DEVELOPMENT BANK

**The Year Ahead:** The North American Development Bank (NADB) is planning to raise more financing in the capital markets in 2011 – around \$200 million, on par with its last issuance. This additional funding will aid in its growth strategy, particularly in supporting more climate change activities, and will allow NADB to deepen its support of border environmental infrastructure.

**Bank Performance over the Past Year:** In 2010, NADB approved new lending commitments of \$165.3 million (grants and loans combined) and disbursed \$196.3 million (the highest level in its history). By end 2010, NADB's financing reached \$1.2 billion dollars in support of 149 projects in the United States and Mexico. This represents a total investment of \$3.2 billion dollars, which has helped NADB leverage \$2 from public and private sector sources for every \$1 it invests. Of the 149 projects, NADB has built 19 water treatment plants, 32 water distribution systems, 52 wastewater treatment plants, 75 wastewater collection systems, 16 landfills, 16

closed dump sites, and almost 27 million square meters of paving – which has enabled a large portion of the population on both sides of the border to gain access to basic services. In February 2010, NADB also issued its first bond, raising \$250 million (at a coupon rate of 4.375 percent with a maturity date of February 11, 2020). The additional financing is helping NADB expand its portfolio into renewable energy and energy efficiency projects.

On development effectiveness, the NADB and its sister organization – the Border Environmental Coordination Commission (BECC) – include results measurement matrices for all of their projects which track baseline conditions and proposed targets that reflect the environmental/health benefits of their interventions. In 2010, the institutions agreed to develop project close-out reports to summarize the lessons learned and track results as part of a more comprehensive results measurement process.

## **Report on IDA Contribution to Graduation**

The U.S. Department of the Treasury presents this report in compliance with the Foreign Operations, Export Financing, and Related Programs Appropriations Act, 2001, P.L. 106-429, § 101(a) [Title VIII, § 803], Nov. 6, 2000 (22 U.S.C. § 262r-6(b)(2)). That section directs the Secretary of the Treasury to report to Congress on how International Development Association (IDA) financed projects contribute to the eventual graduation of a representative sample of countries from reliance on financing on concessionary terms and international development assistance.

IDA provides highly concessional funds to the poorest countries, and ideally supports growth and development that ultimately enables them to graduate from IDA. The process of graduation from IDA is normally triggered when a country exceeds the operational per capita income guideline (currently \$1,165). Some countries, such as China, have graduated based on their improved creditworthiness and access to commercial capital, even though per capita income remained below the operational guideline. The graduation process, in most cases, lasts for years and involves a phase-out of IDA funding along with a phase-in of IBRD lending. Before graduation, there is usually an intermediate stage where countries are designated as IDA-blend countries. There are 17 IDA-blend countries: Cape Verde, Zimbabwe, Papua New Guinea, Vietnam, Armenia, Azerbaijan, Bosnia-Herzegovina, Georgia, Uzbekistan, Bolivia, Dominica, Grenada, St. Lucia, St. Vincent, India, Maldives, and Pakistan.

Thirty-five countries have graduated from IDA. Some of these countries, however, have subsequently become eligible once again for IDA funding. Most recently, Montenegro and Serbia graduated in 2007 and Albania and Indonesia graduated in 2008. Indonesia had graduated in 1980 but became IDA-eligible again in 1998 after the Asian financial crisis.

A review of IDA's graduation policy will be presented for discussion at the IDA16 Mid-Term Review in November 2012.