

2009 Report To Congress by the National Advisory Council on International Monetary and Financial Policies

US Department of Treasury
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Executive Summary

The Treasury Department presents this report in compliance with section 1701 of the International Financial Institutions Act, as amended by section 583 of the Omnibus Appropriations Act, 1999 (Pub. L. No. 105-277), which directs the Chairman of the National Advisory Council on International Monetary and Financial Policies, 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 [...] appropriate.

Just over a year ago, the world economy faced serious and unprecedented challenges. Global output was declining at an annual rate of 6 percent, financial markets were frozen, jobs were being lost at an unprecedented rate, and international trade was falling precipitously. The United States was a leader through that challenging period and worked with others in early 2009 to mobilize a quick, decisive, and massive global response to arrest the economic decline and boost global demand. The international financial institutions (IFIs) were key actors in that response. The IFI response included the mobilization of an additional \$1.1 trillion in resources for international financial institutions to backstop emerging and developing market economies and to buttress trade finance, including \$100 billion in Multilateral Development Bank (MDB) support. In total, the MDBs helped over 130 countries representing 44 percent of the world economy, and 38 percent of America's export markets.

Delivering that response effectively was the key challenge facing the IFIs in 2009 and will remain their chief task in 2010, as lending levels are expected to remain high. Treasury's focus, along with other shareholders, is to ensure that that such lending is mission-focused and results-oriented, that the IFIs are transparent and accountable to the public, and that they have the resources necessary to achieve their objectives.

The report below highlights these developments and objectives, addressing in turn the International Monetary Fund and the Multilateral Development Banks.

International Monetary Fund

1. 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: The world confronted the greatest challenge to the world economy in generations during the crisis of 2008-2009. The IMF played 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 new lending commitments of more than \$170 billion over FY09. As the IMF's loanable quota resources were drawn down, it became clear that the Fund needed a credible backstop to cope with threats to the international monetary system.

At the London Summit on April 2, 2009, G-20 Leaders committed to increase the size of the IMF's New Arrangements to Borrow ("NAB," a set of credit arrangements between the IMF and a group of members and institutions to supplement quota resources) by up to \$500 billion and called on the IMF to raise an immediate \$250 billion through bilateral borrowing arrangements to be subsequently folded into the NAB. The announcement of the international community's commitment to increase the NAB had an important effect on markets, and helped to stem the capital drain and contagion risk facing emerging market countries. As an exceptional measure, the IMF's crisis response also included allocations of Special Drawing Rights ("SDRs") equivalent to approximately \$283 billion to supplement members' reserves.

It is important to recognize and maintain the IMF's ability to respond quickly and flexibly to crises when they occur. As the IMF was effectively responding to increased demand for financing and policy advice, it also strengthened its framework for crisis resolution. The U.S., in cooperation with the IMF and the broader international financial community including the G-20, has consistently promoted a strengthened framework for crisis resolution. In early 2009, the IMF overhauled its non-concessional lending framework and created the Flexible Credit Line (FCL) to make it easier for the IMF's strongest-performing emerging market member countries to access resources rapidly. In spring 2009, the IMF Board approved FCLs for Mexico, Poland, and Colombia. Combined with responsive policy actions by country authorities, the FCL

instrument is credited with supporting a reduction in risk perception and contributing to stabilization in financial market conditions.

Finally, a critical component of the international community's response was ensuring that the IMF had adequate resources to address the needs of low-income countries (LICs). The United States strongly advocated, and the IMF Board approved, a package to sharply increase the resources available to LICs. Resources from the planned sale of IMF gold and other internal sources will more than double the Fund's medium-term concessional lending capacity and frontload these resources over the next two years. This was important because, although advanced economies were hit first by the crisis, low-income countries then faced a very different global marketplace with sharp drops in exports, foreign direct investment, and remittances.

Foreign Exchange Surveillance: The IMF is charged with overseeing the international monetary system to ensure its effective operation and monitoring each member's compliance with its policy obligations. Surveillance of member's exchange rates is at the core of the IMF's fundamental responsibilities. In June 2007, the IMF Executive Board adopted a new *Decision on Bilateral Surveillance over Members' Policies*, replacing the 1977 *Decision on Surveillance over Exchange Rate Policies* as the guiding document on surveillance. The new decision was strongly backed by the U.S. Treasury Department in an effort to refocus the Fund on its core mandate. Since the 2007 Decision, the number of Article IV consultations that include clear assessments of the exchange rate's value in relation to economic fundamentals has risen, and the sophistication of exchange rate assessments has improved.^{1 2} Selected Issues papers accompanying Article IV staff reports have been increasingly devoted to exchange rate issues and the sophistication of exchange rate assessments has improved as econometric assessments of the exchange rate's equilibrium value have become more common. Despite these improvements, the IMF still has ample scope to perform better in fulfilling the important task of bilateral exchange rate surveillance. The U.S. 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.³ For the IMF to fulfill its central role in the international financial system, it must continue strengthening its efforts to exercise clear surveillance over IMF members' exchange rate policies and it must be prepared to make tough

¹ The IMF's Independent Evaluation Office found that only 63 percent of Article IV reports from 1995-2005 included a clear assessment of the exchange rate's value in relation to economic fundamentals. Independent Evaluation Office of the International Monetary Fund, "An IEO Evaluation of IMF Exchange Rate Policy Advice, 1999-2005," 2007.

² In contrast, the 2008 Triennial Surveillance Review found that 92 percent had done so after the Decision. International Monetary Fund, "2008 Triennial Surveillance Report – Overview Paper," September 2, 2008.

³ 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.treas.gov/offices/international-affairs/economic-exchange-rates/pdf/Appendix%202%20Final%20October%2015%202009.pdf>).

judgments, especially when these policies are undertaken by large countries and have systemic implications.

Financial Sector Surveillance and Reforms: The IMF 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. As of end-September 2009, 125 countries have completed FSAP assessments and 55 countries have completed FSAP update assessments. Sixteen reviews are underway or planned. The U.S. completed an FSAP in July 2010.

Results from the FSAP are used to generate assessments of compliance with key financial sector standards such as the Basel Committee on Banking Supervision 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. In September 2009, the U.S. supported proposed reforms to the FSAP intended to improve the frequency and country coverage of these reviews.

2. Discussion of the 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 United States quota share in the IMF by the dollar equivalent of 4.97 billion SDRs (about \$7.71 billion as of June 24, 2009). This increase in the United States quota share is not yet effective, and will not come into effect until other IMF member countries undertake certain actions with respect to the IMF. Work will continue on quota reform over FY 2010 (see section 4).

New Arrangements to Borrow (NAB): In addition to quota subscriptions, as noted above, the IMF maintains multilateral borrowing arrangements with financially strong members 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. Total

U.S. participation in these arrangements – the General Arrangements to Borrow (GAB) and the NAB – is currently SDR 6.7 billion, or about \$10 billion.

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. Congress provided authorization and appropriation for this increase on June 24, 2009, in the Supplemental Appropriations Act, 2009 (Public Law 111-32). The expanded NAB will become effective once the IMF Board and the existing and new NAB participants take certain steps to formally approve the NAB amendments and increase in the coming months. U.S. participation in the NAB will then total SDR 69 billion or about \$110 billion.

3. Report on Major Developments of 2009

The IMF's actions to respond to the global financial crisis dominated its agenda in FY2009. As part of these efforts, the Fund enhanced and streamlined its lending framework to respond more effectively to members' changing financing needs, while preserving adequate safeguards to protect Fund resources.

Support for Low Income Countries: In 2009, the IMF substantially reformed its policies toward LICs, including providing significant new resources and reforming lending facilities. Through the use of gold sales profits and other internal resources, the IMF will make \$4.75 billion in cash terms available to low-income countries in coming years to subsidize scaled-up IMF concessional lending. This \$4.75 billion in subsidy resources is expected to leverage over \$17 billion in substantially concessional IMF lending. In 2009 alone, the IMF approved over \$3.7 billion in new concessional financing to help LICs address critical economic and financial challenges, almost quadruple the annual level of the IMF's pre-crisis assistance to these countries. Additionally, the IMF will charge zero interest on outstanding IMF concessional credit until end-2011 and increase the grant element on its subsequent concessional lending. Taken as a whole, these reforms to the IMF's concessional financing activities will increase the scale and improve the terms of IMF financing for LICs. Thus, these reforms are and have been a crucial element in mitigating the effect of the global crisis on the most vulnerable countries.

The IMF's new architecture of concessional lending facilities for LICs resulted in the following: (1) the Extended Credit Facility, which provides flexible medium-term support; (2) the Standby Credit Facility, which addresses short-term and precautionary needs; and (3) the Rapid Credit Facility, which offers emergency support with limited conditionality. The new instruments are

established under the umbrella of a new Poverty Reduction and Growth Trust (formerly the Poverty Reduction and Growth Facility Trust). The Fund also raised borrowing limits within facilities, generally in line with reforms taken across non-concessional lending facilities.

For more details on IMF support for LICs, see <http://www.imf.org/external/np/exr/facts/poor.htm>

Lending Facilities Reform: In addition to the changes for low-income countries, the IMF approved a major overhaul to its non-concessional lending framework to better address the evolving challenges of crisis-affected countries. The new framework was designed to provide countries more room for policy maneuver to cushion the economic and social costs of external shocks, and in some cases to prevent crises altogether. The major elements of the new non-concessional lending framework are: modernized IMF conditionality to ensure that conditions for loan disbursements are appropriately focused and tailored, the introduction of the Flexible Credit Line noted above for the strongest performers, enhancement of the flexibility of the IMF's regular stand-by lending arrangement, doubling of access limits across lending facilities, adapted and simplified cost and maturity structures, and elimination of seldom used facilities.

For more details on this new Framework, see <http://www.imf.org/external/np/sec/pr/2009/pr0985.htm>

Early Warning Exercises: In November 2008, G-20 Leaders called on the IMF and the Financial Stability Forum (now, the Financial Stability Board, or FSB) to collaborate in conducting Early Warning Exercises (EWE). The EWE is designed to strengthen assessments of systemic, low probability, high impact risks to the global outlook, and identify possible mitigating actions. The exercise integrates macroeconomic and prudential perspectives on systemic risks. It draws on analytical work, market information, and consultations with market participants, academics and country authorities. The EWE is conducted on a semi-annual basis and, following discussions at the IMF Executive Board and the FSB Plenary, the findings are presented to senior officials during the IMF's Spring and Annual Meetings. The IMF and FSB launched the first official EWE in October 2009.

4. Report on Major Prospects for 2010

Framework for Strong, Balanced and Sustainable Growth: At the G-20 Leaders Summit in Pittsburgh in September 2009, President Obama proposed and secured agreement from other Leaders on a new Framework for Strong, Sustainable and Balanced Growth. The Framework is a process whereby Leaders set out their medium-term economic objectives, put forward policies to achieve those objectives, and together assess progress and discuss policies in the event course corrections are needed. Implementation of the Framework is being undertaken by G-20 Finance

Ministers and Central Bank Governors, but the IMF and the World Bank were asked to provide critical technical assistance.

In November 2009, G-20 Finance Ministers and Central Bank Governors agreed on a template of information that each country would provide to each other and to the IMF concerning medium-term forecasts and policy frameworks. The IMF evaluated these contributions and developed an initial assessment of the medium-term base line scenario. This initial assessment was used to discuss medium-term challenges and to develop alternative policy scenarios to address those challenges. Finance Ministers are meeting several times over the course of 2010 to discuss the policy scenarios and to develop a “suite of policy recommendations” for national leaders to review, discuss, and agree. Leaders met in June in Toronto and will meet again in November in Korea.

The essential goal of the Framework is to return to a world of high, sustainable, and balanced growth through increased international cooperation, and to avoid the re-creation of asset bubbles and the re-emergence of unsustainable global financial flows.

Quota Reform: This year, the IMF membership will take up the Fourteenth General Quota Review and have agreed to complete the review by January 2011. 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. In September 2009, with strong U.S. leadership, the G-20 agreed to “a shift in quota share to dynamic emerging market and developing countries of at least five percent from over-represented to under-represented countries using the current IMF quota formula as the basis to work from.” As part of the IMF’s quota review, the G-20 also agreed that a number of other critical issues will need to be addressed, including the overall size of any increase in IMF quotas, which will have a bearing on the ability to facilitate change in quota shares, and the size and composition of the Executive Board. The technical discussions on these issues are just beginning.

Other Governance Reform: In parallel to the work on quota reform, the IMF’s shareholders are considering measures to improve the effectiveness of its governance structures, including the role, composition, and relationship between its various governing bodies, including the International Monetary and Financial Committee (IMFC) and the Board of Executive Directors. Some of these discussions are likely to be taken up only after further progress is made on quota reform.

5. Progress in Achieving U.S. Policy Goals

Advancing G-20 Priorities at the IMF: Through the G-20 Finance Ministers and Leaders processes, the U.S. spearheaded agreement among its G-20 counterparts to reform the global architecture to meet the needs of the 21st century. As a result of these efforts, the G-20 Leaders committed to fund and reform the international financial institutions to advance a critical U.S. policy goal: to overcome the crisis and prevent future ones. As noted above, in this context, the United States:

- Led the way on substantially expanding resources for the NAB;
- Secured G-20 agreement to support a general SDR allocation that injected \$250 billion into the world economy and helped increase global liquidity; and
- Worked closely with key G-20 members to negotiate a shift in IMF quota share to dynamic emerging markets and developing countries of at least 5% from over-represented countries to under-represented countries using the current quota formula as the basis to work from.

New Income Model and Budget Consolidation: When IMF lending declined in the mid-2000s, the resulting steep drop in income forced the IMF management and shareholders to rethink how to place the institution's finances on a sustainable footing. The U.S. insisted that significant budget cuts accompany any proposed changes to the IMF's income model and that the lender move from relying primarily on lending income to generating funds from various sources. As a result, in 2008 the IMF Executive Board approved a three-year budget which included a 10% staff cut and reduction of the annual budget by \$100 million (10% of the \$1 billion budget) by year three, in real terms. Despite the intense pressure caused by the global financial crisis, the IMF managed to stay on course toward this three-year restructuring, while flexibly reallocating resources in FY2009 and appropriately utilizing temporary resources for short-term crisis demands. The U.S. will continue to press the IMF to follow-through on this longer-term restructuring effort.

Transparency: The U.S. has been a consistently strong advocate for increased transparency at the IMF. With our strong advocacy, the IMF made significant improvements to its transparency policy, culminating in a new framework approved in 2004. The February 2009 implementation report demonstrated significant improvement: the percentage of Article IV Staff Reports and program documents published rose from 41% in 1999-2001 to 87% in 2008 and every current IMF borrower has published its Staff Report.

Over 2009, the Board reviewed the IMF's transparency policy with a view toward achieving a more transparent Fund. The updated policy was approved in December 2009 and contains several key improvements: the new broad framework presumes disclosure of country documents and information, unless strong and specific reasons exist against it; publishing country documents will proceed on a no-objection basis, rather than requiring explicit consent; important assessment documents (such as Financial Sector Stability Reports and Reports on Standards and

Codes) will also be presumed to be disclosed on a no-objection basis; and key archival items will be available sooner (e.g., Board minutes will be available after only five years, rather than the previous 10 years). The U.S. will continue to urge the IMF to do more to publish and communicate its findings while pressing members to support full publication of existing bilateral surveillance and other IMF work products, including exchange rate evaluation and risk analysis. Achieving even greater transparency in the Fund's work will enhance its effectiveness as a guardian of global stability.

For more information on the updated Transparency Framework, see:
<http://www.imf.org/external/np/exr/facts/trans.htm>

6. Recommendations on Improving IMF Operations

Strengthen Global Financial Safety Nets: The global crisis demonstrated that volatile international financial markets can sometimes cause even countries with strong economic policies to need short-term, liquidity financing. The U.S. supports reforms to enhance the global financial safety net, including modification of IMF facilities, but we will take a keen interest in the details of how this is done and discussions are on-going. In particular, as a creditor to the IMF, we will look for appropriate safeguards on the use of IMF resources.

Smaller Board of Executive Directors: The U.S. believes that the IMF would be better served by a smaller and more efficient Board of Executive Directors, with a composition that better reflects the realities of the global economy. In this way, representation of emerging market and developing countries could be enhanced while its high overhead costs could be reduced.

Quota / Governance Reforms: Quota reform is a critical step in modernizing the IMF, better aligning its governance structure with the changing global economic landscape, and enhancing the voice of emerging market and low-income countries. Other governance reforms are geared at enhancing members' perception of the legitimacy of the Fund, and hence its effectiveness in promoting international monetary stability.

Data Collection/Dissemination: A key determinant of the Fund's effectiveness in contributing to global monetary stability and in building broader economic knowledge is transparency. The Fund's provision, compilation, and publication of comparable data—including on exchange rates and reserves under the existing mandate—remains a top U.S. priority.

Effective bilateral and multilateral surveillance requires provision of timely, full and accurate data, and here the IMF can play a stronger role in collecting and disseminating comparable cross-country data (such as Financial Soundness Indicators). As a first step, the U.S. would welcome further reviews of data provision for surveillance, with a view toward improving data reporting

in areas that promote understanding of cross-border flows and data on the composition of reserves.

Multilateral Development Banks

1. Assessment of the Effectiveness of the MDB's Major Policies and Operations

In late 2008 and 2009, the financial crisis created severe fiscal and balance of payments pressures in the developing world. In the world's poorest countries, the impact of the financial crisis threatened to unravel hard earned gains in poverty reduction and economic growth, and created major setbacks to the realization of the Millennium Development Goals to alleviate global poverty.

The Multilateral Development Banks (MDBs) acted with exceptional speed and force to cushion the poorest from the worst impact of the crisis and restore liquidity for world trade flows. At a time when few institutions were lending, their decisive actions, including \$222 billion in financing,⁴ were critical to global stabilization efforts and resumption of economic growth. For example, the World Bank launched a fast-track facility to expedite the approval processes for the world's poorest countries to help them cope with falling revenues, investment, and trade. An initial \$2 billion of International Development Association (IDA) funds was made available for the hardest hit, supporting public spending on infrastructure, education, health, and social safety net programs, such as school and maternal feeding programs. While the most acute phase of the financial crisis has passed, the World Bank estimates that in 2010, 64 million more people worldwide will fall into extreme poverty—defined as living on less than \$1.25 per day—due to the financial crisis.

The World Bank Group

Between July 2008 and January 2010, the Bank provided a record \$89 billion in support. Assistance includes:

- \$53.1 billion by the International Bank for Reconstruction and Development (IBRD), which provides financing and technical assistance to middle income countries, where 70% of the world's poor live.
- \$18.3 billion committed by IDA, which provides interest-free loans and grants to the world's 79 poorest countries.
- \$15.5 billion by the International Finance Corporation (IFC), the Bank Group's private sector development arm, which also launched an array of crisis response initiatives, including a \$3 billion fund to strengthen banks, a \$5 billion Global Trade Liquidity Program, and a \$2.4 billion Infrastructure Crisis Facility. This crisis response has not

⁴ Of which, over \$100 billion was additional lending beyond pre-crisis plans, consistent with commitments to the G20.

diverted the IFC from continued progress on the longtime U.S. objective of increasing support for the private sector in the world's poorest countries: IFC commitments in IDA countries have tripled in the last five years and exceeded 50% for the first time last year.

- \$1.9 billion in guarantees by the Multilateral Investment Guarantee Agency (MIGA), the Bank Group's political risk insurance agency. The majority of the guarantees support continued lending by banks in response to the financial crisis.
- Assistance to countries designed to maintain long-term infrastructure investments and sustain potential for private sector-led growth and job creation.
- A tripling of support for safety net programs (school feeding, nutrition, conditional cash transfer, cash for work).
- A new Global Food Crisis Response Program, which has approved \$710 million for 21 African countries.

African Development Bank

The African Development Bank (AfDB) more than tripled lending in 2009, to \$8.5 billion. Beyond project lending, the crisis response consists of a package that includes four initiatives:

- \$1.5 billion Emergency Liquidity Facility (ELF) for sovereign clients in middle income countries (MICs), and non-sovereign clients in MICs and African Development Fund (AfDF) countries;⁵
- \$1 billion for a Trade Finance Initiative;
- Support for AfDF countries by restructuring non-disbursed funds, front-loading loan disbursement, and creating a guarantee instrument to backstop government obligations for infrastructure financing; and,
- Increased collaboration with other MDBs to strengthen its information gathering and analysis.

Asian Development Bank

The Asian Development Bank (AsDB) took aggressive action by providing additional resources without undermining the Bank's capital adequacy. First, in order to increase lending to the region's poorest countries, the AsDB frontloaded commitments financed by the Asian Development Fund (AsDF) 10th Replenishment. As a result, overall AsDF lending and grants in 2009 increased to \$3.1 billion (compared to \$2.6 billion in 2008). The AsDB also committed to triple its net income allocation to the AsDF to \$120 million annually.

⁵ "AfDF countries" are those 38 least developed African countries eligible to receive financing from the AfDB's concessional-lending window. See <http://www.afdb.org/en/about-us/african-development-fund-adf/recipient-countries/>

Additionally, to meet needs of MIC borrowers, the AsDB has:

- Expanded the AsDB's guarantee program to \$2.1 billion;
- Aggressively mobilized cofinancing of \$1-2 billion from other development partners and commercial sources; and, most importantly,
- Increased 2009 lending from the Ordinary Capital window by nearly 50%, to \$12.5 billion.

European Bank for Reconstruction and Development

In response to the crisis, the European Bank for Reconstruction and Development (EBRD) increased its investments by 50%, to \$11.8 billion during 2009. The countries of Eastern Europe and the former Soviet Union were particularly hard hit by the financial crisis, as private sources of capital disappeared and economies contracted—like in Latvia, where the economy contracted by 18% in 2009. The largest share of funding was invested in the region's banks to bolster bank capitalization and maintain lending flows, particularly to small businesses. In addition, the EBRD dramatically increased its trade facilitation program from \$1 billion to almost \$2 billion, and developed a new, \$325 million mid-sized corporate facility to meet the growing working capital needs of its corporate customers.

The EBRD expects to maintain similar levels of lending and investment in 2010, as the effects of the financial crisis linger on in the region's economies.

Inter-American Development Bank

Recognizing the pending financial constraints on the region, the Inter-American Development Bank (IDB) was the first MDB to create a liquidity facility to respond to the financial crisis. The \$6 billion Ordinary Capital Liquidity Program for Growth Sustainability provided on-lending to regulated financial institutions facing reduced access to credit.

Going beyond its crisis lending instrument, the IDB's 2008-2009 lending totaled \$26 billion, up from \$15 billion in the previous two-year period. The Bank has also reassessed borrower priorities, looking for opportunities to strengthen social programs in general and poverty alleviation programs in particular.

International Fund for Agricultural Development

While the financial crisis has amplified the importance of the MDBs, the food crisis has underscored the role played by the International Fund for Agricultural Development (IFAD). IFAD responded with the development of \$715 million in projects to improve the lives of the rural poor, a 19% increase over 2008 commitments. One of these projects was IFAD's first in Afghanistan, a rural development program that aims to provide microfinance to 60,000 Afghans.

and train 4,000 rural women in poultry and dairy production techniques. In an impoverished region of eastern Turkey, an IFAD project seeks—by promoting improvements in livestock management, a shift to market-friendly crops, and investments in community-level agricultural infrastructure—to increase project beneficiaries’ income by at least 10% over the next five years.

North American Development Bank

In 2009, the North American Development Bank (NADBank) marked its 15th year of operation with unparalleled lending activity. The Bank committed nearly \$220 million in financing for clean infrastructure projects, including the Bank’s two largest commitments to date: a \$53 million loan to help resolve flooding in and around El Paso, Texas, and a \$45 million loan that will rehabilitate 4.3 million square meters of primary roadways in Tijuana, Mexico, and lead directly to major improvements in local air quality.

2. Discussion of the Major Issues Affecting U.S. Participation in the MDBs

The United States exercises strong leadership at the MDBs, commensurate with its level of shareholding in the institutions. The United States is the largest shareholder at the World Bank and the largest non-regional shareholder at each of the regional development banks. U.S. participation and strong leadership provide significant leverage—both in financial resources from other donors for development assistance, and in adoption of policy and institutional reforms in line with U.S. development goals.

In May, 2009, the Board of Governors agreed to the General Capital Increase V (GCI V) for the Ordinary Capital Resources (OCR) window of the Asian Development Bank (the hard-loan window). The agreement increases resources for the OCR by 200%, or approximately \$100 billion. The U.S. was able to achieve key reforms in exchange for support for the GCI V, including a tripling to \$120 million annually of AsDB contributions to its concessional window; the upgrading of safeguards and environmental standards; organizational changes to maximize the efficiency of institutional integrity and audit functions; and the promotion of new fee-based services that are appropriate for the Bank’s most developed clients.

MDB Hard Loan Window	U.S. Shareholding (%)
World Bank (IBRD)	16.4%
International Finance Corporation (IFC)	23.6%
Asian Development Bank (AsDB)	15.6%
African Development Bank (AfDB)	6.5%
European Bank for Reconstruction and Development (EBRD)	10.0%
Inter-American Development Bank (IDB)	30.0%
North American Development Bank (NADBank)	50.0%

The United States has been the largest cumulative contributor at the MDB concessional windows, allowing for sizeable influence in shaping the policies of these institutions. In February 2009, in response to the international community's call for increased investment in agricultural development, the IFAD Governing Council approved the \$1.2 billion Eighth Replenishment, a 67% increase over the previous period. The increased commitment recognizes the widespread reforms that IFAD has accomplished over the past eight years and reflects the U.S.'s reform priorities, including: human resources reform and restructuring; increased resources in operations; strengthened results measurement; and greater focus on the poorest countries.

Despite the United States' historic leadership role, the U.S. share of donor contributions to the concessional windows has been declining. This fact, along with large and long-standing arrears to the institutions, undermines the ability to achieve U.S. reform objectives in the replenishments. Over the last decade, the United States has fallen from its long held position as the largest contributor to the concessional windows, falling from a 22.5% share of IDA13⁶ to a 14.7% share of IDA15, and from a 15% share of AfDF8 to our current 8.7% share of AfDF11. In addition, as of the end of FY 2009, the United States owed \$1.0 billion on its obligations to the MDBs, over 85 percent of which would support assistance to low-income developing countries.

⁶ The 13th IDA replenishment. This convention is repeated throughout this report when referring to other replenishments of MDB concessional windows.

MDB Concessional Window (Most Recent Replenishment)	U.S. Share of Donor Contributions to the Most Recent Replenishment	Rank in that Replenishment	U.S. Share of Cumulative Contributions
International Development Association (IDA15)	14.8%	3	21.9%
African Development Fund (AfDF11)	9.1%	4	12.0%
Asian Development Fund (AsDF10)	11.0%	3	10.6%
IDB Fund for Special Operations (FSO)	--	1	50.0%
International Fund for Agricultural Development (IFAD8)	7.5%	1	13.0%

3. Report on Major Developments of 2009

While response to the financial crisis dominated the agenda of the MDBs in the last year, there are other important developments to report.

Response to Food Crises

In 2009, the World Bank Group carried forward the work of the Global Food Crisis Response Program, which provided immediate relief to countries hard hit by high food prices. In 2009, this program spent approximately \$2 billion to raise agricultural production and feed poor and vulnerable populations. In addition to this program, the Bank boosted overall agricultural lending to \$12 billion, up from \$4 billion in 2008. In its FY2009, the IFC also invested over \$700 million in agribusiness supply.

In 2009, the African Development Bank implemented the Africa Food Crisis Response mechanism, which provided support to countries in the region affected by increased food prices. Its interventions served to reduce African populations' risk of increased poverty in the short term and ensure sustainable food security in the medium and long term.

Key Institutional Reforms

World Bank: The signature institutional reform at the World Bank in 2009 was a revision of the Bank's disclosure policy. The U.S. strongly supported the final result of the Bank's review, which sets a new, high-quality standard among MDBs. The key breakthrough was a shift from an approach where disclosure is considered exceptional, to one in which disclosure is considered the norm, with nondisclosure permitted only under certain exceptional circumstances. Other

important changes to the policy included the creation of a formal, independent appeals process, through which members of the public can seek disclosure if they believe it was wrongfully denied. Finally, the Bank committed to release significant policy documents and certain project documents to the public at the same time that they are released to the Bank board.

AfDB: Key human resource developments included adoption of a performance-based evaluation system. The Bank also executed a number of senior management changes, including the creation of a new Chief Operating Officer position to enhance managerial coherence. On the policy front, the Bank developed a new Capital Adequacy Framework, adopted a Strategy for Regional Integration and a Strategy for Climate Risk Mitigation and Adaptation, and updated its Gender Plan of Action.

AsDB: Major reforms were negotiated in the context of an increase in the Bank's capital. These included agreements by shareholders: tripling the AsDB's annual financial contribution to its concessional window; upgrading safeguards and environmental standards; organizational changes to maximize the efficacy and efficiency of institutional integrity and audit functions; and the promotion of new fee-based services that are appropriate for the Bank's most developed clients.

EBRD: In 2009, the EBRD adopted a new inspection mechanism, the Project Complaint Mechanism (PCM), to replace its Independent Recourse Mechanism (IRM). The EBRD's new mechanism provides two functions: a compliance review function, which assesses whether or not the Bank has complied with its environmental and public information policies; and a problem-solving function, which aims to restore dialogue between the parties in order to resolve the issues underlying the grievance. The new mechanism is more accessible to the public, has a dedicated officer and budget, and gives greater consideration to requesters, for example by allowing complainants to comment on the Management Action Plan prior to its consideration by the Board.

IDB: The IDB invested substantial effort into upgrading its financial management policies in 2009. These efforts led to revisions of the Bank's policies and mechanisms to manage the adequacy of its capital, investments, liquidity, and the Bank's mix of assets and liabilities. The United States strongly supported the upgrading of these policies.

IFAD: In February 2009, IFAD hired a new president, Kanayo Nwanze. President Nwanze immediately led a reorganization of IFAD to streamline decision making processes and initiated a sweeping, badly-needed human resources review.

NADB: In 2009, Mexico and the United States completed paying in their capital commitments to the NADBank, paving the way for the Bank to seek a credit rating in order to borrow from private capital markets. In late 2009, the NADB was awarded an AAA credit rating from Moody's and AA+ from S&P.

4. Report on Major Prospects for 2010

World Bank: The World Bank will remain focused on responding to the financial and food crises in 2010. We expect other major issues to include:

- Conclusion of shareholders' review of the World Bank's capital needs, and commitments by shareholders to the provision of new capital.
- Negotiation of the 16th replenishment of IDA—the World Bank's concessional window—in which the U.S. hopes to improve results-based management at the Bank, enhance Bank engagement in fragile states, increase thematic focus on food security and climate change, and support regional integration.
- Development of a stronger IFC Sustainability Policy and Performance Standards that includes rigorous reporting of development impacts.
- Identification of a new World Bank Group strategy that recognizes the Bank's twin responsibilities of expanding access to energy for the poorest and reducing the carbon intensity of development in the future.

AfDB: Shareholders will conclude their review of the Bank's capital needs with a commitment of new capital. Donors and management also plan to conclude negotiations for the 12th replenishment of the African Development Fund in 2010. The United States aims for that agreement to sustain AfDF's existing strategic focus (on infrastructure, governance and regional integration), introduce refinements to the regional operations and fragile states set-asides, and deepen institutional reforms aimed at sharpening attention to development results.

AsDB: The AsDF10 Replenishment Mid-Term Review is scheduled for November, 2010. This meeting will review progress against agreements made in the AsDF10 negotiations. Major areas for discussion include the amount of excess reserves held in the AsDF (and potential disbursement of those reserves), the basis for allocation of technical assistance funds, and a review of the Performance-Based Allocation system.

Other key institutional reviews in the year ahead include:

- Review of the Bank's disclosure policy.
- Agreement to increase loan prices, so that the Bank income is adequate to deliver growth of capital, coverage of administrative expenses, and fund transfers to the AsDF.
- Reform of the AsDB's Inspection Mechanism.

EBRD: Shareholders will conclude their review of the Bank's capital needs with a commitment of new capital. In addition, the Bank will update its whistleblower policy and review its strategy

for country graduation and post-graduation engagement. The whistleblower policy is a critical component of the Bank's anti-fraud apparatus. The graduation strategy reflects the need to focus the Bank's resources on high impact transition opportunities, and so is critical to the Bank's effectiveness.

IDB: The IDB has an extensive policy agenda in 2010. Shareholders will conclude their review of the Bank's capital needs with a commitment of new capital. The IDB also intends to develop new sector strategies for climate change, including renewable energy; regional integration; lending to nonsovereign actors; and social sector lending. Finally, the IDB plans to review its project approval procedures to assure that all projects meet minimum development objectives, including with respect to the evaluability of projects.

IFAD: IFAD's key challenge will be to retain its focus and not become overstretched as its resources expand by two-thirds over the next three years. IFAD must successfully execute human resource reforms and a deepening of its country presence, both of which are key to a successful expansion of IFAD programming.

NADB: In addition to increasing its sustainable infrastructure financing portfolio along the U.S.-Mexico border, the NADB is working to expand its lending to address climate change challenges, and support renewable energy and air quality improvement projects.

5. Progress in Achieving U.S. Policy Goals

U.S. investments in the MDBs help to ensure responsiveness to U.S. policy goals, as expressed through our reform agenda. The United States remains intensely focused on ensuring maximum results for every taxpayer dollar used for development and on ensuring that the MDBs first and foremost improve sustainable economic opportunities for the poorest around the world. The U.S. seeks to ensure that the MDBs are adequately resourced, manage their finances soundly, invest effectively, measure results, allocate based on performance, and are transparent and accountable to the public. In the end, every project that the MDBs fund should serve a clear, measurable development purpose.

Our reform agenda is making a difference in the MDBs. While the examples are numerous, we can highlight a few in each of the banks:

Policy Reforms

- The AsDB Board of Directors approved a new Safeguard Policy in July 2009. The USG supported this revised policy, which now is more consistent and comprehensive. Improvements included greater clarity with respect to borrower/client responsibilities;

clearly identified principles; strengthened oversight of safeguard implementation; explicit inclusion of economic displacement in the involuntary resettlement protections; a commitment to restore livelihoods to pre-project levels or better where they are subject to significantly adverse impacts; benefit-sharing with affected people; improvements in consultation and civil society participation; greater clarity in the safeguard requirements for different lending modalities such as framework approaches and financial intermediaries; and, for the first time, a specific provision on greenhouse gases.

- The AfDB is improving project quality by applying consistent standards across project design, and has put in place a system to review and aggregate results at the project and country levels.
- The IDB agreed to implement recommendations of the external review group headed by U.S. Attorney General Richard Thornburgh concerning the Bank's anti-corruption framework. Agreed changes include increased protection for whistleblowers, creation of a new Sanctions Committee (four of whose seven members will be from outside the Bank), establishment of the Anti-Corruption Policy Committee, and an increase in the visibility of the Office of Institutional Integrity by making it an independent unit within the Bank's basic structure.

Funding for Priority Sectors

The United States has asked the MDBs to increase lending in several priority sectors, including climate change and clean energy, support for regional integration, and support for the private sector.

- *Climate change and energy efficiency:*
 - The World Bank has doubled lending to renewable energy and energy efficiency projects in the last two years, and expects to see continued rapid escalation of lending to clean sources of energy from its own resources and through the trust funds the Bank administers.
 - The EBRD is planning to expand investments in energy efficiency and supporting market incentives to encourage the regional transition to a low carbon economy.
 - The AsDB aims to quintuple clean energy lending to \$1.4 billion in 2010-2012 and raise the share of such lending to at least 55% of all energy lending.
- *Regional integration:*
 - Regional integration is a particularly pressing development imperative in Africa, where geographic and economic fragmentation is acute. Under AfDF11, the African Bank will provide \$2 billion in financing (24 percent of the AfDF11 total) in support of 28 regional integration projects in 18 countries by end-2010. These are mainly road, electricity and rail projects.

- The IDB is targeting a significant increase in regional integration lending and is developing new instruments to make such lending more effective.
- Finally, the AsDB has had significant success with its regional cooperation and integration work, particularly in the Mekong region. The AsDB provides most of its regional integration financing through the Asian Development Fund; 10% of the Fund's resources currently go towards financing regional integration projects.
- *Private sector lending:*
 - We have asked the IFC to increase its focus on IDA countries, so that its support for private companies in these countries represents 60 percent of its overall activity.
 - The AfDB's private sector lending to middle- and low-income countries has increased rapidly in recent years and is projected to comprise about 40 percent of lending in the post-crisis period.
 - The AsDB is working to triple its private sector lending so that it represents at least 50 percent of its portfolio.

6. Recommendations on Improving MDB Operations

Treasury takes seriously its obligation, especially during this time of constrained resources, to assure that our investments in the MDBs yield the highest development returns. As such, successful implementation of the reform agenda in the year ahead is critical. While the specifics vary by institution, broadly we are focused on four critical areas:

Sound Finances: The United States has called upon each MDB to develop a financial model that ensures that revenues cover administrative costs, uses loan charges to make transfers to the poorest countries, and has built-in incentives to shrink as capital market access expands. We will seek burden sharing through higher loan charges for borrowing countries, transfers from the hard loan to the soft loan windows, and more disciplined budget strategies within each MDB. In addition, in appropriate cases our approach could include the use of temporary capital, which would expire when a sustained improvement in capital market access is achieved.

Effective Management and Governance: The United States will seek stronger performance measures and metrics, call for increased capacity to innovate and demonstrate impact, and press the MDBs to become better development partners by working in support of country-led development strategies, while improving their coordination with bilateral donors, the private sector, and each other.

Transparency and Accountability: The United States will continue to pursue stronger standards for transparency and accountability across the MDBs by making disclosure of significant policy documents the norm, and creating effective inspection mechanisms to allow for direct feedback

on projects and policies from impacted communities. Our push to increase transparency at the project level should advance the MDBs' fight against corruption.

Focus on Core Missions: The core mission of the MDBs has always been to fight poverty and enhance development opportunities. The United States will continue to ensure that these institutions concentrate on results for the poorest, with a special focus on four main areas that address today's transnational challenges and that were agreed upon by the G-20: food security, human development and security in the poorest and most fragile environments, private-sector led growth and infrastructure, and climate change. Investments in these areas will help ensure sustainable economic growth that can lift lives, as well as advance U.S. national security and economic interest, and preserve U.S. values.