IMPLEMENTATION OF CERTAIN LEGISLATIVE PROVISIONS RELATING TO THE INTERNATIONAL MONETARY FUND

A Report to Congress

in accordance with

Sections 1503 and 1705(a) of the International Financial Institutions Act,

Section 801(c)(1)(B) of the Foreign Operations, Export Financing, and Related Programs Appropriations Act, 2001

and

Section 605(d) of the Foreign Operations, Export Financing, and Related Programs Appropriations Act, 1999

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Introduction

This report is prepared in accordance with Sections 1503 and 1705(a) of the International Financial Institutions Act (IFI Act), codified at 22 U.S.C. §§ 262o-2 & 262r-4(a).1 This report also covers policies set forth in Section 801(c)(1)(B) of the Foreign Operations, Export Financing, and Related Programs Appropriations Act, 2001,2 as required by Section 1705(a) of the IFI Act. The report reviews actions taken by the United States to promote these legislative provisions in International Monetary Fund (“IMF” or the “Fund”) country programs. Annex 1 covers new IMF lending arrangements per section 605(d) of the Foreign Operations, Export Financing, and Related Programs Appropriations Act, 1999.3 Earlier reports under these provisions are available on the Department of the Treasury’s website (www.treas.gov/press/reports.html).

Treasury and the Office of the United States Executive Director (“USED”) at the IMF consistently endeavor to build support in the IMF’s Executive Board for the objectives set out in this legislation. These endeavors include meetings with IMF staff and other Board members on country programs and IMF policies, formal statements by the USED in the IMF Board, and USED votes in the Board. Treasury’s objective is to support strengthened commitments in IMF programs, policy actions by program countries, and policy decisions at the IMF itself. Treasury’s IMF task force is charged with increasing awareness among Treasury staff about legislative mandates and identifying opportunities to influence IMF decisions in line with broader U.S. international economic policy objectives.

This report is submitted in the context of responding to the global financial and economic crisis that began in 2007 and is the worst economic crisis since the Great Depression. The United States has been a leader throughout this period through its own economic policies, as well as collaborating closely with the Group of 20 countries (“G-20”) and the international institutions, including the IMF. In late 2008, G-20 leaders called upon the IMF to continue to act swiftly to play a key role in crisis response. The IMF’s response – including new and more flexible lending programs to ensure members’ needs are met, enhanced surveillance to help strengthen individual countries’ economic policies and the international system, and greater resources for the poorest to mitigate the impacts of the crisis – has contributed to a much more stable system and to much improved global economic and financial conditions. Stresses in financial markets have declined, investor and consumer confidence has improved, international trade is recovering, and economic growth has resumed in most countries and globally.

1 These provisions were enacted in Sections 610 and 613 of the Foreign Operations, Export Financing, and Related Programs Appropriations Act, 1999 (Public Law 105-277, division A, § 101(d), title VI, §§ 610 & 613). Section 1503 was amended by Section 7703 of the Intelligence Reform and Terrorism Prevention Act of 2004 (Public Law 108-458, title VII, § 7703). Section 1705(a) was amended by Section 803 of the Foreign Operations, Export Financing, and Related Programs Appropriations Act, 2001 (Public Law 106-429, title VIII, § 803).
2 Public Law 106-429, title VIII, § 801(c)(1)(B).
3 Public Law 105-277, title VI, § 605(d).
Report on specific provisions

I. **Section 1503(a)**

(1) **Exchange rate stability**

Article I of the IMF’s Articles of Agreement states that one of the purposes of the IMF is “to promote exchange stability, to maintain orderly exchange arrangements among members, and to avoid competitive exchange depreciation.” In June, 2007, the IMF Executive Board adopted a new *Decision on Bilateral Surveillance over Members’ Policies* (“Decision”), 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 Decision, IMF surveillance of exchange rates has improved in both breadth and quality. 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.\(^4\) In contrast, the 2008 Triennial Surveillance Review found that 92 percent had done so after the Decision.\(^5\) 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’s bilateral exchange rate surveillance still needs improvement in its candor, consistency, and transparency, and Treasury continues to advocate for these further improvements.

In light of the global economic crisis, the IMF’s multilateral surveillance mission has taken on increasing importance. Enhanced multilateral surveillance by the IMF is crucial both for recovery from this crisis and prevention of future economic instability. As part of the Framework for Strong, Sustainable, and Balanced Growth agreed to at the Pittsburgh G-20 Summit, the IMF will play a key advisory role in the G-20 mutual assessment mechanism. The IMF has been asked to develop a forward-looking analysis of whether policies pursued by individual G-20 countries are collectively consistent with more sustainable and balanced trajectories for the global economy, and report regularly to both G-20 Finance Ministers and the International Monetary and Financial Committee (“IMFC”).

Examples of United States activities with regard to these issues include:

- In the February 2009 Article IV review for India, the USED welcomed the Reserve Bank of India’s policy to allow exchange rate flexibility and observed that allowing greater exchange rate flexibility would help clarify monetary policy objectives.

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In its Board statement for South Africa’s August 2009 Article IV review, the USED observed that South Africa’s flexible exchange rate was an interesting case study of how a very flexible exchange rate mediates adjustment to sharp shifts in capital inflows.

In the July 2009 Article IV review for Indonesia, the USED emphasized that Bank Indonesia’s flexible exchange rate and inflation targeting regime have helped shield the economy from external volatility in capital flows and demand for exports.

In the February 2009 Article IV review of Mexico, the USED commended authorities for their commitment to exchange rate flexibility and for very clearly limiting discretionary intervention to rare cases where large but temporary shocks threaten orderly functioning of foreign exchange markets.

(2) Policies to increase the effectiveness of the IMF in promoting market-oriented reform, trade liberalization, economic growth, democratic governance, and social stability through:

(A) Establishment of an independent monetary authority

With the support of the United States, the IMF has been a consistent advocate of greater independence of monetary authorities across a range of countries. IMF conditionality frequently includes measures to strengthen central bank autonomy and accountability. The IMF also provides technical assistance to help countries achieve these goals. In addition, the Fund promotes these objectives through assessments of compliance with internationally-agreed upon standards and codes, as well as rules for safeguarding the use of IMF resources. Examples of United States activities with regard to these issues include the following:

• In the August 2009 Board review of Pakistan’s Stand-By Arrangement, the USED called for authorities to legislate policies to strengthen the operational independence of the State Bank of Pakistan.

• In an April 2009 discussion of the Costa Rica Stand-By Arrangement, the USED encouraged the strengthening of the capital position and the independence of the central bank in order to enable less reliance on the exchange rate anchor, allowing for more cushion against external shocks.

• In the July 2008 ex post review of the IMF’s engagement with Turkey, the USED strongly supported the review’s view that central bank independence was critical to addressing Turkey’s vulnerabilities and essential to the inflation targeting regime.

(B) Fair and open internal competition among domestic enterprises

Although the World Bank has the lead mandate on these issues, the IMF, with United States support, encourages member countries to pursue policies that improve internal
economic efficiency. These measures may include ending directed lending (or other relationships between government and businesses based on favoritism), improving anti-trust enforcement, and establishing a sound and transparent legal system. For example,

- In the July 2008 Article IV review of Brazil, the USED encouraged authorities to remove structural barriers that impede market-based lending and suggested that they consider a long-term plan to phase out credit quotas to specific sectors and redefine the role of the state-owned development bank toward market-oriented lending.

- In the Nicaragua Poverty Reduction and Growth Facility (“PRGF”) review in September 2008, the USED agreed with the staff’s caution against actively managing domestic market conditions through the state-owned food marketing board and discouraged directed lending to the sector.

(C) Privatization

The IMF has made privatization a component of country programs where significant distortions and government ownership of business enterprises have created substantial inefficiencies in the allocation of resources and the production of goods. Collaborating with the World Bank, the Fund has supported the use of competitive and transparent means of privatization so that borrowing countries might achieve gains in economic efficiency and improve their fiscal positions. Examples of IMF programs and surveillance discussions in which the USED has advocated privatization include the following:

- At the May 2009 Article IV review for Thailand, the USED advocated a reduction in the size of specialized financial institutions (“SFIs”) and an acceleration of SFI privatization.

- In the February 2009 Article IV review of Guyana, the USED advocated increased private sector participation and productivity in key industries, like the sugar industry, which would support fiscal and debt sustainability as well as longer-term growth.

- In the January 2009 review of Burundi’s PRGF, the USED urged Burundi to implement its plan for divestiture of the government-owned coffee washing sector, a major step toward privatizing the sector.

- In the September 2008 statement on Bangladesh’s Article IV review, the USED highlighted that the financial sector would be strengthened by divestment of remaining state-owned commercial banks.

(D) Economic deregulation and strong legal frameworks

Markets are distorted and entrepreneurship is stifled without strong property rights, enforcement of contracts, and fair and open competition. While these issues are often addressed as part of the World Bank’s mandate, the IMF periodically includes such policy advice in its programs or surveillance on measures considered critical to the member
country’s macroeconomic performance. Examples of United States’ efforts to encourage these reforms include the following:

- In the January 2009 Article IV review of Bolivia, the USED noted Bolivia’s poor investment climate and high degree of state involvement in economic activity. Given reports that government expropriations had triggered demands for international arbitration, the USED strongly urged Bolivia to respect investor rights and engage in constructive negotiations with investors to reach agreement on disputed contracts.

- For India’s January 2008 and February 2009 Article IV reviews, the USED urged the removal of restrictions on participation of foreign banks, insurance firms, and pension providers; the passage of pension and insurance bills to help develop the corporate bond market; and further actions to liberalize foreign direct investment and both inward and outward participation in debt markets.

**(E) Social safety nets**

While growth is an essential ingredient for poverty reduction, investment in human development and basic social services is also critical. Cost effective social safety nets can play an important role in building domestic support for economic reform, and in alleviating the direct impact of poverty.

The IMF does not lend directly for budget support to build social safety nets. However, the Fund’s policy advice and its focus on macroeconomic stability encourage domestic policymakers to develop fiscal strategies that address the needs of the poor, within a fiscal framework that is sustainable over the long-term. Reducing generalized subsidies while protecting pro-poor spending, for example, is a common theme. In the poorest countries, IMF advice is developed within a country-specific poverty reduction strategy that encourages accountability between donors and recipients.

In addition, debt relief under the Heavily Indebted Poor Countries (“HIPC”) Initiative is part of a larger effort to address low-income countries’ development needs. Before the HIPC Initiative, eligible countries were, on average, spending slightly more on debt service than on health and education combined. They have since markedly increased their expenditures on health, education, and other social services. As of September, 2009, such spending, on average, is about six times the amount of debt-service payments. For HIPC countries, the Treasury Department carefully evaluates whether the IMF program allows for an increase in or maintenance of health and education expenditures. Also, the U.S. Executive Director’s board statements in discussions of HIPC country programs stress the importance of protecting health and education expenditures, as well as other poverty reduction and social safety net spending.

- As part of the August 2009 Article IV review of South Africa, the USED noted that South Africa’s further stimulus in the FY2009/10 budget appeared appropriate and recommended that public infrastructure investments and safety net expenditures should be well-targeted and readily adjustable as the economy recovers.
• In the final review of the Paraguay Stand-By Arrangement in May 2009, the USED encouraged further strengthening of the social safety net, so that targeted assistance can cushion the effects of rising food and fuel prices and exchange rate adjustment.

• In the June 2009 first review of Mongolia’s Stand-By Arrangement, the USED strongly supported the authorities’ efforts to undertake a comprehensive reform of social transfer programs to ensure that fiscal restraint does not exacerbate the impact of the downturn on poor households.

• In the May 2009 Article IV review of Honduras, the USED disapproved of the government’s fiscal choices, in particular spending on high public wages rather than development, and noted that such choices may not be what donors had in mind as the envisaged benefit of HIPC debt relief.

(F) Opening of markets for agricultural goods through reductions in trade barriers

The IMF encourages a multilateral, rules-based approach to trade liberalization across all sectors of the global economy, including, but not limited to, the agricultural sector. The IMF has played a supportive role in promoting trade liberalization, particularly in the context of the WTO trade negotiations under the Doha Development Agenda (“DDA”). The IMF is prepared, along with the World Bank, to provide transitional assistance to member countries experiencing payment imbalances arising from the passage of trade reform. In recent years, the IMF has stepped up its in-depth trade policy work in consultations with currency unions, such as the Monetary and Economic Community of Central Africa (“CEMAC”), the European Monetary Union (“EMU”), and West African Economic and Monetary Union (“WAEMU”), and in other Board papers for some African and Western Hemisphere groupings.6

(3) Strengthened financial systems and adoption of sound banking principles and practices

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. agreed to undertake an FSAP in 2006, which is currently underway and to be completed in 2010.

In September 2009, the USED supported proposed reforms to the FSAP intended to improve the frequency and country coverage of these reviews. The USED urged the IMF to work closely with international standard setting bodies when developing criteria that will inform implementation of partial updates of the Reports on the Observance of Standards and Codes (“ROSC”) and to ensure consistent application of the criteria. The USED

welcomed plans to reconsider the publication policy for these reports in the upcoming review of the Fund’s Transparency Policy, with a view to increasing transparency of the Fund’s financial sector assessments.

During discussion of the Seventh Review of the Fund’s Data Standards Initiatives in December 2008, the USED reiterated support for inclusion of financial indicators in the Fund’s Special Data Dissemination Standard (“SDDS”), noting it “would significantly facilitate the monitoring of macro-financial conditions and the evaluation of economic and financial sector policies.” The Board reached agreement that the Fund should provide it with a proposal for integrating financial soundness indicators into SDDS. Also during that December 2008 review, the USED recommended that the Fund explore the possibility of a study in conjunction with the Bank for International Settlements and the Financial Stability Forum (now, the Financial Stability Board or “FSB”) to review and identify gaps in data disclosure and recommend how international data reporting could be improved. In April 2009, the G-20 called for a joint IMF/FSB assessment of data gaps in the context of the recent financial crisis, with a report due to G-20 Finance Ministers and Central Bank Governors in November 2009.

Results from the FSAP are used to generate assessments of compliance with key financial sector standards such as the Basel Committee’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. Some key examples of where the USED has supported the strengthening of financial systems are:

- As part of the August 2009 Article IV review of South Africa, the USED welcomed the enhanced supervision of financial conglomerates in South Africa, noting that this could contribute to regional as well as domestic financial stability given the increased role of South African banks on the continent.

- In the May 2009 Article IV review of Canada, the USED highlighted the role Canada’s strong regulatory and supervisory regime has played in helping to cushion the local financial system amidst recent global turbulence.

- In the first review of Romania's Stand-By Arrangement in September 2009, the USED welcomed progress made to address weaknesses in the financial sector, but urged further steps to implement the deposit insurance scheme, address the deposit insurance funding issues, complete the reforms on Romania's bank resolution regime, and raise financial accounting standards to international standards.

- In the July 2009 Article IV review of Brazil, the USED commended improvements in the supervisory and regulatory framework of the financial sector, but emphasized the importance of maintaining rigorous credit standards at public financial institutions as their balance sheets expand.
(4) Internationally acceptable domestic bankruptcy laws and regulations

While the World Bank normally leads reviews of domestic insolvency laws, the IMF actively supports this agenda. The UN Commission on International Trade Law (“UNCITRAL”) and the World Bank have worked to compile recommendations in this area covering, respectively, insolvency law and sound insolvency/creditor rights regimes. At the urging of the United States, staff from the World Bank, IMF, and UNCITRAL worked together to develop a standardized, unified assessment methodology to assess implementation of those recommendations.

The IFIs provide technical assistance to help emerging market economies develop efficient insolvency regimes. The IMF and the World Bank have supported adoption of the Model Law on Cross-Border Insolvency developed by the UN (the UNCITRAL Model Law) to facilitate the resolution of increasingly complex cases of insolvency where companies have assets in several jurisdictions. With the support of the United States, the IMF has worked with the World Bank to promote improved insolvency regimes in a number of countries.

- In its February 2009 Article IV Statement on India, the USED highlighted the importance of improving the bankruptcy law and securing passage of the Companies Law to modernize the corporate regulatory framework.

- In the October 2008 Article IV review of Uruguay, the USED praised the authorities’ commitment to their structural reform agenda, specifically the expected approval of the bankruptcy law.

(5) Private sector involvement

The United States continues to work to ensure that the private sector plays an appropriate role in the resolution of financial crises. Over the past several years, the IMF, with the support of the United States, has taken important steps towards strengthening crisis prevention and resolution. The IMF has strengthened its surveillance of member countries and instilled more discipline in the use of official sector financing, especially through the establishment of rules and procedures governing exceptional access to Fund resources. Additionally, the use of collective action clauses, supported by the IMF as an accepted contractual, market-based approach to sovereign debt restructurings, should help a sovereign restructure its debt when under financial distress.

The IMF recognizes the need to preserve the fundamental principles that (a) creditors should bear the consequences of the risks they assume, and (b) debtors should honor their obligations. Furthermore, the IMF has closely coordinated with other international financial institutions and relevant country regulatory authorities. In the context of Fund lending programs, for example, the IMF secured voluntary commitments from the major foreign banks to maintain their overall exposure levels in Hungary, Romania, Serbia, Latvia, and Bosnia. In each case, the banks issued a public statement of their
commitments, which are essential to maintaining financial stability in the affected countries. Local regulators will monitor the banks’ exposures. In particular, the United States has advocated policies that include:

(A) Increased crisis prevention through improved surveillance and debt and reserve management

The United States has urged the IMF to strengthen further its surveillance function and crisis prevention capabilities. The United States, along with other G-20 members, reaffirmed the central role of the IMF as a critical forum for multilateral consultation and cooperation on monetary and financial issues as well as in promoting international financial and monetary stability. In November 2008, G-20 Leaders called on the IMF, in collaboration with the expanded FSF and other bodies, to work to better identify vulnerabilities, anticipate potential stresses, and act swiftly to play a key role in crisis response. They also called on the IMF, given its universal membership and core macro-financial expertise, to take a leading role in drawing lessons from the current crisis, consistent with its mandate and in close coordination with the FSB and others. G-20 Leaders agreed that the IMF should conduct vigorous and even-handed surveillance reviews of all countries, as well as give greater attention to their financial sectors and better integrate the reviews with the joint IMF/World Bank financial sector assessment programs. As noted earlier, reforms to the FSAP process have since been approved to enhance the frequency and country coverage of assessments and better integrate them into countries’ Article IV reviews.

The United States has joined with other G-20 members in calling on the IMF to play a key role in the mutual assessment mechanism under the recently agreed Framework for Strong, Sustainable, and Balanced Growth. The IMF has been asked to develop a forward-looking analysis of whether policies pursued by G-20 countries are collectively consistent with sustainable and balance trajectories for the global economy. In addition, the United States has worked consistently to promote global rebalancing and the IMF has increased its attention to this issue. For economies running large current account surpluses, the USED has called for stronger and sustainable domestic demand.

As part of its overhaul of its non-concessional lending framework in early 2009, the IMF created the Flexible Credit Line (“FCL”), which makes it easier for strong-performing member countries to access resources by raising access limits, streamlining conditionality, and simplifying cost and maturity structures. 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.

Other examples of instances where the United States has advanced these issues include:

- In a May 2009 discussion of the Colombia Flexible Credit Line, the USED highlighted the need to closely monitor the evolution of loan portfolios and non-performing loan
• In China’s July 2009 Article IV review, the USED observed that sustaining China’s impressive growth will require a fundamental rebalancing of the economy, with a very substantial and durable shift from external to internal demand, and from investment- and export-intensive growth to growth led by domestic household consumption.

• At the May 2009 Article IV review for Thailand, the USED highlighted the need to remove debt issuance limits that constrain the government’s ability to raise funds quickly and implement its planned expenditures.

• In a discussion of the Guatemala Stand-By Arrangement in April, 2009, the USED observed that the rapid increase of foreign currency debt to the non-tradable sector raises vulnerabilities and agreed that the expected deceleration of economic activity will likely put some pressures on the banking system.

• In the February 2009 Article IV review of Mexico, the USED praised the prudent steps taken to protect the budget from swings in oil prices; specifically, when oil prices were high, the authorities increased domestic prices charged by PEMEX, while expanding targeted transfers to protect real incomes of the most vulnerable in a cost-effective way.

(B) Strengthening of emerging markets’ financial systems

The IMF continues to work with other IFIs to promote stronger financial systems in emerging market economies (also see Section 3). The 2007 Malan Report concluded that both the IMF and the World Bank play an important role in helping emerging economies address the challenges of globalization and obtain its benefits. It also recommended that their cooperation in this area be based on their comparative expertise, with the IMF taking the lead in instances where there are significant issues of domestic or global economic stability, and the World Bank leading in instances where financial sector development issues are paramount.

The IMF is also actively involved with the World Bank in monitoring the implementation of the Basel Core Principles for Effective Banking Supervision. The IMF, with United States support, has increased its cooperation with the World Bank in this area, through the joint FSAP and in assessing countries’ observance of other standards and codes.

In November 2008, G-20 Leaders called on advanced economies, the IMF, and other international organizations to provide capacity-building programs for emerging market economies and developing countries on the formulation and the implementation of new major regulations, consistent with international standards. About 90 per cent of IMF technical assistance goes to low-income and lower middle income countries. Technical assistance is provided in the Fund’s areas of core expertise, including financial sector sustainability. Countries have asked for Fund assistance to address weaknesses identified
in FSAPs, to adopt and adhere to international standards and codes, implement recommendations from off-shore financial center assessments, and strengthen measures to combat money laundering and the financing of terrorism. To meet the rising demand for Fund capacity building programs as well as to better coordinate assistance delivery, the Fund is seeking to strengthen its partnerships with donors by engaging them on a broader, longer-term, and more strategic basis. Towards this end, the Fund is proposing to pool donor resources in multi-donor trust funds that would supplement the Fund’s own assistance. The funding model will operate by region and topic.

Some key examples of where the USED has supported a strengthening of emerging market financial systems are:

- As part of the March 2009 review of Georgia’s Stand-By Arrangement, the USED welcomed the authorities’ close monitoring of the banking system, adding that stress testing, bank-by-bank assessments, and the development of a contingency plan would assist the authorities in rapidly responding to signs of instability should they emerge.

- In the March 2009 Board review of Pakistan’s Stand-By Arrangement, the USED encouraged the Fund to work with authorities to make progress on deposit insurance, and to develop contingency plans to resolve banking distress should such conditions arise.

- The USED’s statement for the July 2009 Article IV review of Kazakhstan called for bank restructuring and resolution to be transparent and managed in such a way that depositors face limited or no constraints on access to their deposits, noting that rebuilding depositor confidence will be critical to securing a new source of financing for bank credit.

- In its statement on Brazil’s Article IV review in July 2009, the USED lauded the country’s improvements in its supervisory and regulatory framework, crediting these measures with Brazil’s stability throughout the crisis. The USED urged authorities to be aware of asset quality and liquidity risks and pressed for continued efforts to reduce lending spreads, increase the efficiency of financial intermediation, and expand access to credit by smaller enterprises and consumers.

- In the third review of Hungary's Stand-By Arrangement in September 2009, the USED urged the authorities to strengthen their bank remedial and resolution framework as well as adopt crucial reforms in the areas of prompt corrective action, supervisory authority, monitoring, intensified examinations, and stress testing.

(C) Strengthened crisis resolution mechanisms

The IMF’s actions since the crisis began have stabilized markets and boosted confidence, winning broad support and underscoring the Fund’s central role in crisis response. A critical component of the response was ensuring that the IMF has adequate resources to address the needs of members hard hit by the global crisis. To this end,
countries delivered on commitments to renew and expand the IMF’s New Arrangements to Borrow (“NAB”) by over $500 billion to backstop the IMF. The IMF also took action to supplement members’ reserves and boost global liquidity through allocations of Special Drawing Rights (“SDRs”) equivalent to $283 billion.

The United States, in cooperation with the IMF and the broader international financial community, has promoted a strengthened framework for crisis resolution by overhauling the IMF’s non-concessional lending framework in early 2009, including creating the Flexible Credit Line noted above to make it easier for strong-performing member countries to access resources by raising access limits, streamlining conditionality, and simplifying cost and maturity structures. More broadly, since August 2008, the IMF’s non-concessional lending commitments have increased by more than $160 billion.

In addition, the IMF approved a package of extraordinary measures to sharply increase the resources available to low-income countries. 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.

(6) Good governance

The IMF places great importance on good governance when providing its policy advice, financial support, and technical assistance to its member countries. Its commitment to promoting good governance is outlined in its 1996 Declaration on Partnership for Sustainable Global Growth and its 1997 Guidelines on Good Governance. The IMF supports good governance through its emphasis on transparency, strong fiduciary diagnostics, and its promotion of market-based reforms. The IMF has actively promoted good governance through its efforts to protect against abuse of the financial system and to fight corruption.

The Fund’s involvement has focused on those governance aspects that are generally considered part of the IMF’s core expertise, such as improving public administration, increasing government transparency, enhancing data dissemination, and implementing effective financial sector supervision. The IMF promotes best practice principles through its codes and standards, including the Code of Good Practice on Transparency in Monetary and Financial Policies. The IMF also collaborates with the World Bank to strengthen the capacity of HIPC countries to develop essential public financial management (“PFM”) systems and track public sector spending. The IMF is also an active participant in the Public Expenditure and Financial Accountability (“PEFA”) initiative which aims to support integrated and harmonized approaches to assessment and reform in the field of public expenditure, procurement, and financial accountability.

Examples of U.S. efforts to encourage good governance include the following:

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7 IMF financing is provided to central banks to address balance of payments difficulties. The IMF does not lend to fund specific projects in member countries aimed at improving procurement and financial management controls.
• In two 2008 Board statements for the two final reviews of Iraq’s Stand-By Arrangement, the USED urged authorities to reform public financial systems to enhance accountability and transparency, complete a public employee census, and reform the Public Distribution System to reduce fiscal inefficiencies and corruption.

• In the September 2008 statement on Bangladesh’s Article IV review, the USED called for bolder governance reforms, including: ensuring the judiciary’s independence; strengthening the anti-corruption commission; and lifting administrative burdens.

• In an August 2009 Board Statement on Libya’s Article IV review, the USED urged authorities to implement a more transparent and robust regulatory regime to improve the business climate and increase international investment.

• In the January 2008 Article IV review of Ecuador, the USED urged authorities to make earnest use of Ecuador’s resource base and remaining window of opportunity to achieve reforms that ultimately will strengthen the business environment and investor confidence in both the oil and non-oil private sectors.

(7) Channeling public funds away from unproductive purposes, including large “show case” projects and excessive military spending, and toward investment in human and physical capital to protect the neediest and promote social equity

The Fund’s Code of Good Practices on Fiscal Transparency, updated in 2007, identified principles and practices to enhance fiscal policy transparency, promote quality audit and accounting standards, and reduce or eliminate off-budget transactions, which are often the source of unproductive government spending. Supplementing this is the Fund's Guide to Resource Revenue Transparency, also updated in 2007, a complement to the Fiscal Report on Standards and Codes (“FISC ROSC”) for use in resource (oil-gas-mining) rich countries. The guide is being used increasingly in diagnostic work in extractive industry intense economies. The IMF has also been a strong supporter of the Extractive Industries Transparency Initiative (“EITI”), by providing policy and technical support to the EITI Secretariat and Implementing Countries. Numerous countries have had resource revenue and extractive industries issues covered in their ROSCs, including: Gabon; Indonesia; Kyrgyz Republic; and Namibia.

Examples of how the U.S. promoted better channeling of public resources follow:

• During the August 2009 Article IV review of South Africa, the USED encouraged the authorities to focus on improving public service delivery at the provincial and local levels, which would help address pressing social needs in a fiscally responsible manner.

• In the July 2009 review of Sri Lanka’s request for a Stand-By Arrangement, the USED called for fiscal consolidation and improved revenue mobilization, and recommended shifting high defense spending towards investments in human capital and infrastructure.
• In the July 2009 Article IV review of Kazakhstan, the USED noted that the last EITI Implementation report underscored Kazakhstan’s good progress and commended the authorities for their commitment to meet all validation indicators of the EITI.

(8) Economic prescriptions appropriate to the economic circumstances of each country

The United States has supported flexibility in Fund programs, while emphasizing the need to focus conditionality on issues critical to growth and macroeconomic stability using measurable results. Partly as a result of U.S. efforts, program conditions have focused increasingly on debt and financial vulnerability in middle-income countries and macroeconomic management in low-income countries.

• During the March 2009 Article IV review for Vietnam, the USED welcomed the IMF’s well-targeted report and its close advisory work to help Vietnam face a particularly challenging period in its transition to a more open and market-driven economy.

• In the fourth review of Peru’s Stand-By Arrangement, the USED commented that strong performance by countries such as Peru, and the market confidence they have helped to support, raised questions regarding management’s rationale that a precautionary SBA must carry exceptional access in order to signal policy strength and continuity to markets.

• In the March 2008 Article IV review for the Philippines, the USED commended the staff for its appropriate focus on the fiscal and financial sectors to reduce vulnerabilities, and provide a durable foundation for growth.

(9) Core labor standards (“CLS”)

Core labor standards provide a useful benchmark for assessing countries’ treatment of workers against internationally agreed-upon standards. The State Department monitors labor standards in all IFI borrower countries and Treasury is mandated to submit a separate report to Congress assessing progress made with respect to internationally recognized worker rights. The most recent report was submitted in November 2008.

The IMF and International Labor Organization (“ILO”) continue to collaborate, as evidenced by the IMF Managing Director’s meeting with the ILO’s Governing Body in March 2009 to discuss the adequacy of crisis response measures. In addition, the IMF, the World Bank, the United Nations and the ILO are strengthening their cooperation to help least developed countries build basic social protection floors that are adapted to local realities and fiscally sustainable.

(10) Discouraging practices that may promote ethnic or social strife

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By helping to create the conditions for a sound economy, IMF assistance facilitates the reduction of ethnic and social strife to the extent such strife is driven in part by economic deprivation. For example, with United States support, the IMF has increasingly encouraged the strengthening of social safety nets. The IMF also encourages consultation with various segments of society in the development of programs so that these segments have an opportunity to participate in the implementation of national priorities. IMF assistance has helped to free up resources for more productive public investment by contributing to a reduction in country military expenditures.

(11) Link between environmental and macroeconomic conditions and policies

With respect to individual lending operations, the IMF does not itself evaluate positive or negative linkages between economic conditions and environmental sustainability. Rather, the IMF coordinates with the World Bank which, unlike the IMF, possesses the internal expertise to address such linkages. To the degree that environmental issues raise economic or financial vulnerabilities, however, the U.S. has raised concerns, as in the cases below:

- In the June 2009 review of Burkina Faso’s PRGF, the USED appreciated that the Samendeni dam project could reduce vulnerability in the agriculture sector, but urged the authorities to seek concessional finance, carefully analyze the project’s costs and benefits, and resist arrangements that could exacerbate already elevated debt risks.

- In the April 2008 request from Bangladesh for emergency assistance after Cyclone Sidr, the USED commended the authorities' recovery efforts, adding that weather-related economic disruption is a fact of life in Bangladesh, and urged the IMF to assist the authorities in planning for macroeconomic contingencies.

(12) Greater transparency

The IMF continues to encourage, with strong United States support, member countries to make their economic and financial conditions more transparent. In recent years, the IMF has increased significantly the amount of information on its programs that it has made available to the public. The United States has stressed the need to build on this progress and expand the number of publications and IMF practices open to public scrutiny. As a result of earlier efforts, publication of all Article IV and Use of Fund Resources staff reports is presumed unless a country objects. In addition, all exceptional access reports will generally be published as a pre-condition to the Board’s approval of such an arrangement. The USED consistently encourages countries to publish the full Article IV staff report on the IMF's public website. The percentage of staff reports published increased from 78 percent in 2004 to 87 percent in 2008. Moreover, Public Information Notices are now produced in 97% of Article IV discussions, up from 82%. Every current IMF borrower has publicized its Staff report. The Board will consider its next review of the IMF transparency policy late in 2009 and the IMF is currently seeking input on the

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9 “Exceptional access” refers to financing arrangements in amounts that exceed the Fund's normal limits.
transparency policy from civil society organizations, financial market participants, and academics.\textsuperscript{10}

In addition to urging countries to publish their Article IV assessments, countries are urged to provide additional information to private market participants by regularly releasing data consistent with the IMF’s Special Data Dissemination Standard (“SDDS”). Fund members subscribing to either the General or Special Data Dissemination Standards increased from 75% of all members in 2005 to 85% in 2008.

- In the February 2008 Article IV review of Guyana, the USED welcomed the work underway to improve national accounts and exchange rate data, noting that such improvements in data coverage and quality are key to support macroeconomic policy.

- In the August 2009 Article IV Review of Libya, the USED urged the authorities to continue moving forward with reforms to improve fiscal governance and transparency, such as by providing more timely and detailed reporting.

- In the July 2009 Article IV review of Chile, the USED expressed concern with Chile’s efforts to reform its bank secrecy laws after the OECD placed Chile on a “grey list” of countries that agreed to improve transparency standards, but had not yet signed the necessary international accords.

(13) \textit{Greater IMF accountability and enhanced self-evaluation}

In 2000, with the strong urging of the USED, the Executive Board established an Independent Evaluation Office (“IEO”) to supplement existing internal and external evaluation activities. The IEO provides objective and independent evaluation on issues related to the IMF and operates independently of Fund management and at arm's length from the IMF Board. On average, the IEO concludes two or three evaluations per year, and each evaluation normally takes about 18 months to complete. Recent evaluations include \textit{IMF Involvement in International Trade Policy Issues} (June 2009);\textsuperscript{11} \textit{Governance of the IMF: An Evaluation} (May 2008);\textsuperscript{12} \textit{Structural Conditionality in IMF-Supported Programs} (January 2008);\textsuperscript{13} \textit{IMF Exchange Rate Policy Advice, 1999-2005} (May 2007);\textsuperscript{14} and \textit{The IMF and Aid to Sub-Saharan Africa} (March 2007).\textsuperscript{15} All reports are publicly available on the IEO’s website at (http://www.imf.org/external/np/ieo/index.htm).

(14) \textit{Structural reforms which facilitate the provision of credit to small businesses, including microenterprise lending}

\textsuperscript{11} http://www.ieo-imf.org/eval/complete/pdf/06162009/Full_Text_of_the_main_report.pdf
\textsuperscript{12} http://www.ieo-imf.org/eval/complete/pdf/05212008/CG_main.pdf
\textsuperscript{13} http://www.ieo-imf.org/eval/complete/pdf/01032008/SC_main_report.pdf
\textsuperscript{14} http://www.ieo-imf.org/eval/complete/pdf/05172007/ERP_main_report.pdf
\textsuperscript{15} http://www.ieo-imf.org/eval/complete/pdf/03122007/report.pdf
The lack of financial services available to the poor is a significant obstacle to growth for many developing countries. The IMF does not have the lead role in microeconomic reforms to benefit small businesses; however, the Treasury Department engages with the IFIs to promote structural reforms that encourage the provision of credit to small and micro enterprises. The microfinance sector is frequently reviewed in the context of the FSAP in developing countries.

- In the July 2009 Article IV review of Chile, the USED encouraged authorities to continue to simplify regulatory procedures for micro and small- and medium-sized enterprises (“SMEs”) to foster policies that encourage innovation and productivity gains. The USED also commended the financial incentives for private investment and small business in the stimulus plans.

- In the September 2008 Article IV review of Korea, the USED observed that investment growth could be spurred by broadening access to market-based financing for SMEs and giving them stronger incentives to restructure.

- In the Nicaragua PRGF review in September 2008, the USED expressed concern that the Usura Cero practice of offering credit to households at subsidized rates was having a distortionary impact on the much-needed and still-developing microfinance sector.

(15) Anti-Money Laundering and Combating the Financing of Terrorism (“AML/CFT”)

Comprehensive integration of the efforts of the IMF and the other IFIs as part of the effort to fight terrorism worldwide has been a consistent policy priority for the United States and its partners. We have encouraged collaboration between the IFIs and the Financial Action Task Force (“FATF”) to assess global compliance with the anti-money laundering (“AML”) and countering the financing of terrorism (“CFT”) standards based on the FATF 40 Recommendations on Money Laundering and the Nine Special Recommendations on Terrorist Financing.

In April 2007, largely as a result of U.S. and G-7 leadership, the IMF Board reiterated the importance of AML/CFT standards to strengthening the integrity of financial systems and deterring financial abuse, and affirmed the collaborative arrangements presently in place with the FATF and FATF-style regional bodies (“FSRBs”) for assessing AML/CFT regimes in the context of the IMF's financial sector work. The Board also encouraged greater transparency by calling for the publication of comprehensive country evaluations.

Collaboration by the IMF, FATF, and FSRBs with the assessors, using the same common methodology, institutionalizes the global fight against terrorist financing and money laundering, and helps countries identify shortfalls in their AML/CFT regimes and implement reforms. As of September 2009, the IMF had conducted 29 assessments of country compliance with AML/CFT as part of a third round of mutual evaluations, in cooperation with the FATF, FSRBs, and the World Bank.
The IMF is also a substantial source of funding for countries’ efforts to strengthen their own AML/CFT regimes – an activity that Treasury has supported and has joined in to leverage Treasury’s own bilateral AML/CFT assistance. The IMF has provided substantial technical assistance (“TA”) on a bilateral and regional basis. Since May 2009, the IMF has been working with donor nations to establish a technical assistance trust fund to finance further TA and research activities in the area of AML/CFT.

The USED/IMF office played a crucial role in mobilizing the IMF Board’s support for this initiative, as well as ensuring that note is taken of AML/CFT issues in Article IV reviews and reports, IMF programs, and other regular reviews of country progress.

- In its statement on Mozambique’s June 2009 Request for Exogenous Shocks Facility, the USED welcomed the improvements in supervisory powers for implementing AML measures and encouraged Mozambique to pass a counter terrorist financing law with an adequately resourced financial intelligence unit.

- In the January 2008 and January 2009 Article IV reviews for India, the USED urged the incorporation of AML/CFT into financial sector oversight and urged authorities to address remaining deficiencies in India’s AML/CFT framework as identified by the FATF and the Asia/Pacific Group.

- In the April 2009 Article IV review for Kuwait, the USED observed that Kuwait was the only Gulf Cooperation Council country without a terrorist financing law and urged the authorities to address the situation wherein little meaningful progress had been made to bring Kuwait into compliance with international standards.

- In the April 2009 Article IV review of Malaysia, the USED recognized the authorities’ efforts to strengthen their AML/CFT regime, and urged them to address remaining deficiencies, including improving regulation and oversight in Labuan.

II. Section 801(c)(1)(B)

(I) Suspension of IMF financing if funds are being diverted for purposes other than the purposes for which the financing was intended

With strong United States support, the IMF has taken steps to ensure that IMF resources are used solely for the purposes for which they are intended. One of the IMF’s most effective tools against corruption is the Safeguards Assessment to prevent possible misuse of IMF resources and misreporting of information. All countries that request a loan from the IMF must agree to undergo a Safeguards Assessment. Its purpose is to identify vulnerabilities in a central bank’s control systems. IMF staff carry out this diagnostic exercise to consider the adequacy of five key areas of control and governance within a central bank: (i) the external audit mechanism; (ii) the legal structure and independence; (iii) the financial reporting framework; (iv) the internal audit mechanism;
and (v) the internal controls system. The framework was introduced in March 2000 and reviewed in April 2005. As of mid-June 2009, 169 Safeguard Assessments have been completed. Recent examples include:

- The National Bank of Tajikistan (NBT) provided guarantees covering $77 million (20%) of its foreign currency reserves to foreign banks to secure financing for the cotton sector. The NBT concealed this fact from the IMF until it was discovered in late 2007. This illicit use of reserves violated IMF program conditions in place, so the IMF required early repayment of Tajikistan's outstanding IMF debt, completed in February 2009.

- In late 2008, IMF Staff uncovered budgetary slippages and misreporting equal to 5% of GDP in Senegal. Although the Senegalese authorities agreed to address the slippages through budget cuts and steps to strengthen public financial management, the USED argued that that further Senegalese steps to strengthen public financial management should be required before a positive PSI review.

(II) **IMF financing as a catalyst for private sector financing**

The IMF recognizes that, if structured effectively, official financing can complement and attract private sector flows. The Fund promotes policy reforms that catalyze private financing and, in cases of financial crisis, allow countries to regain access to international private capital markets as quickly as possible. (See Section 5 above for a more in-depth discussion of private sector involvement.)

(III) **Financing must be disbursed (i) on the basis of specific prior reforms; or (ii) incrementally upon implementation of specific reforms after initial disbursement**

IMF disbursements are made in tranches based on a country’s performance against specified policy actions, both prior to and during the program. Together with the rest of the IMF’s Executive Board, the USED plays a strong oversight role in ensuring that management only brings forward new programs or releases a new tranche of funds after such targets have been met.

- In the July 2008 ex post assessment of IMF’s engagement with Turkey, the USED observed that staggering the disbursements into tranches provided external incentives for the authorities to complete reform measures, and offered useful signals for market participants of the authorities’ continued policy discipline.

(IV) **Open markets and liberalization of trade in goods and services**

The IMF has consistently advocated for open markets and trade liberalization. The Fund also recognizes that trade adjustments can cause temporary balance of payments problems and has developed the Trade Integration Mechanism (“TIM”) to provide transitional financial assistance to countries if needed. During the recent economic downturn, the IMF has advised countries that protectionism is not a solution to economic recovery.
• In the May 2009 discussion of an Independent Evaluation Office review of IMF involvement in trade policy issues, the USED confirmed the IMF’s important role as an advocate for trade liberalization and critic of protectionism. The USED called upon the IMF to reinvigorate cooperation among international institutions involved in trade such as the WTO, and noted that the TIM helped allay the concerns of textiles/apparel producers, preference beneficiaries, and net food importers on their capacity to adjust to multilateral trade liberalization, in particular to future results of the Doha Round.

• In India’s Article IV review of January 2009, the USED stressed that while there are protectionist pressures due to the recent downturn in the world economy, trade restrictions would be highly counterproductive. The USED also expressly sought the authorities’ support for an ambitious conclusion to the Doha Round of trade talks.

(V) IMF financing to concentrate chiefly on short-term balance of payments financing

In 2000 and again in 2009, with strong United States support, the IMF agreed to reorient IMF lending to discourage continued or prolonged use of IMF funds and provide incentives for quick repayment. As a result, IMF shortened the repayment periods for both Stand-By and Extended Arrangements, introduced a time-based surcharge to promote early repayment, and raised commitment fees for higher levels of access.

Partly in response to United States advocacy, the IMF established the Standby Credit Facility (“SCF”) in July 2009 as a new instrument for concessional financing to low-income countries. The SCF will fill a long-standing gap in the IMF concessional facilities architecture by providing low-income countries with a facility specifically designed for intermittent use in response to short-term balance of payments financing gaps. The SCF also carries a shorter repayment period than the IMF’s other concessional facilities. The United States also continues to be a strong advocate for the non-borrowing Policy Support Instrument (“PSI”) which provides a framework for IMF policy advice and donor signaling without the need for IMF lending. The United States has discouraged low-income countries from pursuing serial PRGF programs. The United States urges those countries without a clear balance of payments need to opt for a PSI, in which case they would retain the option of seeking SCF financing in the event of sudden adverse developments.

(VI) Graduation from receiving financing on concessory terms

The United States supports comprehensive growth strategies to help countries graduate from concessional to market-based lending. The United States works closely with the IMF and World Bank to promote a growth-oriented agenda in developing countries based on strong macroeconomic and structural policies. The IMF extends concessional credit through the PRGF Trust. Eligibility is based principally on a country’s per capita income and eligibility under the International Development Association (“IDA”), the World Bank’s concessional window. (The current operational cutoff point for IDA eligibility is a 2007 per capita GNI level of $1,095.) While there had been progress with more developing countries graduating from concessional finance in the mid 2000s (notably Ghana’s Eurobond issuance in 2007), the global credit tightening resulting from the global financial crisis has greatly reduced these countries’ nascent access to credit.
Legislative Provisions
Section 1503 of the International Financial Institutions Act, as amended
(originally passed as Section 610 of the
Foreign Operations, Export Financing, and
Related Programs Appropriations Act, 1999, and amended in 2004)

The Secretary of the Treasury shall instruct the United States Executive Director of the
International Monetary Fund to use aggressively the voice and vote of the Executive Director to
do the following:

(1) Vigorously promote policies to increase the effectiveness of the International Monetary Fund
in structuring programs and assistance so as to promote policies and actions that will
contribute to exchange rate stability and avoid competitive devaluations that will further
destabilize the international financial and trade systems.

(2) Vigorously promote policies to increase the effectiveness of the International Monetary Fund
in promoting market-oriented reform, trade liberalization, economic growth, democratic
governance, and social stability through—
(A) Establishing an independent monetary authority, with full power to conduct monetary
policy, that provides for a non-inflationary domestic currency that is fully convertible in
foreign exchange markets;
(B) Opening domestic markets to fair and open internal competition among domestic
enterprises by eliminating inappropriate favoritism for small or large businesses,
eliminates elite monopolies, creating and effectively implementing anti-trust and anti-
monopoly laws to protect free competition, and establishing fair and accessible legal
procedures for dispute settlement among domestic enterprises;
(C) Privatizing industry in a fair and equitable manner that provides economic opportunities
to a broad spectrum of the population, eliminating government and elite monopolies,
closing loss-making enterprises, and reducing government control over the factors of
production;
(D) Economic deregulation by eliminating inefficient and overly burdensome regulations and
strengthening the legal framework supporting private contract and intellectual property
rights;
(E) Establishing or strengthening key elements of a social safety net to cushion the effects on
workers of unemployment and dislocation; and
(F) Encouraging the opening of markets for agricultural commodities and products by
requiring recipient countries to make efforts to reduce trade barriers.

(3) Vigorously promote policies to increase the effectiveness of the International Monetary
Fund, in concert with appropriate international authorities and other international financial
institutions (as defined in Section 1701(c)(2)), in strengthening financial systems in
developing countries, and encouraging the adoption of sound banking principles and
practices, including the development of laws and regulations that will help to ensure that
domestic financial institutions meet strong standards regarding capital reserves, regulatory
oversight, and transparency.

(4) Vigorously promote policies to increase the effectiveness of the International Monetary
Fund, in concert with appropriate international authorities and other international financial
institutions (as defined in Section 1701(c)(2)), in facilitating the development and
implementation of internationally acceptable domestic bankruptcy laws and regulations in
developing countries, including the provision of technical assistance as appropriate.
Vigorously promote policies that aim at appropriate burden-sharing by the private sector so that investors and creditors bear more fully the consequences of their decisions, and accordingly advocate policies which include—

(A) Strengthening crisis prevention and early warning signals through improved and more effective surveillance of the national economic policies and financial market development of countries (including monitoring of the structure and volume of capital flows to identify problematic imbalances in the inflow of short and medium term investment capital, potentially destabilizing inflows of offshore lending and foreign investment, or problems with the maturity profiles of capital to provide warnings of imminent economic instability), and fuller disclosure of such information to market participants;

(B) Accelerating work on strengthening financial systems in emerging market economies so as to reduce the risk of financial crises;

(C) Consideration of provisions in debt contracts that would foster dialogue and consultation between a sovereign debtor and its private creditors, and among those creditors;

(D) Consideration of extending the scope of the International Monetary Fund’s policy on lending to members in arrears and of other policies so as to foster the dialogue and consultation referred to in subparagraph (C);

(E) Intensified consideration of mechanisms to facilitate orderly workout mechanisms for countries experiencing debt or liquidity crises;

(F) Consideration of establishing ad hoc or formal linkages between the provision of official financing to countries experiencing a financial crisis and the willingness of market participants to meaningfully participate in any stabilization effort led by the International Monetary Fund;

(G) Using the International Monetary Fund to facilitate discussions between debtors and private creditors to help ensure that financial difficulties are resolved without inappropriate resort to public resources; and

(H) The International Monetary Fund accompanying the provision of funding to countries experiencing a financial crisis resulting from imprudent borrowing with efforts to achieve a significant contribution by the private creditors, investors, and banks which had extended such credits.

Vigorously promote policies that would make the International Monetary Fund a more effective mechanism, in concert with appropriate international authorities and other international financial institutions (as defined in Section 1701(c)(2)), for promoting good governance principles within recipient countries by fostering structural reforms, including procurement reform, that reduce opportunities for corruption and bribery, and drug-related money laundering.

Vigorously promote the design of International Monetary Fund programs and assistance so that governments that draw on the International Monetary Fund channel public funds away from unproductive purposes, including large “show case” projects and excessive military spending, and toward investment in human and physical capital as well as social programs to protect the neediest and promote social equity.

Work with the International Monetary Fund to foster economic prescriptions that are appropriate to the individual economic circumstances of each recipient country, recognizing that inappropriate stabilization programs may only serve to further destabilize the economy and create unnecessary economic, social, and political dislocation.
(9) Structure International Monetary Fund programs and assistance so that the maintenance and improvement of core labor standards are routinely incorporated as an integral goal in the policy dialogue with recipient countries, so that –
(A) Recipient governments commit to affording workers the right to exercise internationally recognized core worker rights, including the right of free association and collective bargaining through unions of their own choosing;
(B) Measures designed to facilitate labor market flexibility are consistent with such core worker rights; and
(C) The staff of the International Monetary Fund surveys the labor market policies and practices of recipient countries and recommends policy initiatives that will help to ensure the maintenance or improvement of core labor standards.

(10) Vigorously promote International Monetary Fund programs and assistance that are structured to the maximum extent feasible to discourage practices which may promote ethnic or social strife in a recipient country.

(11) Vigorously promote recognition by the International Monetary Fund that macroeconomic developments and policies can affect and be affected by environmental conditions and policies, and urge the International Monetary Fund to encourage member countries to pursue macroeconomic stability while promoting environmental protection.

(12) Facilitate greater International Monetary Fund transparency, including by enhancing accessibility of the International Monetary Fund and its staff; foster a more open release policy toward working papers, past evaluations, and other International Monetary Fund documents, seeking to publish all Letters of Intent to the International Monetary Fund and Policy Framework Papers, and establishing a more open release policy regarding Article IV consultations.

(13) Facilitate greater International Monetary Fund accountability and enhance International Monetary Fund self-evaluation by vigorously promoting review of the effectiveness of the Office of Internal Audit and Inspection and the Executive Board’s external evaluation pilot program and, if necessary, the establishment of an operations evaluation department modeled on the experience of the International Bank for Reconstruction and Development, guided by such key principles as usefulness, credibility, transparency, and independence.

(14) Vigorously promote coordination with the International Bank for Reconstruction and Development and other international financial institutions (as defined in Section 1701 (c)(2)) in promoting structural reforms which facilitate the provision of credit to small businesses, including microenterprise lending, especially in the world’s poorest, heavily indebted countries.

(15) Work with the International Monetary Fund to
(A) foster strong global anti-money laundering (AML) and combat the financing of terrorism (CFT) regimes;
(B) ensure that country performance under the Financial Action Task Force anti-money laundering and counterterrorist financing standards is effectively and comprehensively monitored;
(C) ensure note is taken of AML and CFT issues in Article IV reports, International Monetary Fund programs, and other regular reviews of country progress;
(D) ensure that effective AML and CFT regimes are considered to be indispensable elements of sound financial systems; and
(E) emphasize the importance of sound AML and CFT regimes to global growth and development.
Treasury should report on the extent to which the IMF is implementing –

I. Policies providing for the suspension of financing if funds are being diverted for purposes other than the purpose for which the financing was intended;

II. Policies seeking to ensure that financing by the Fund normally serves as a catalyst for private sector financing and does not displace such financing;

III. Policies requiring that financing must be disbursed (i) on the basis of specific prior reforms; or (ii) incrementally upon implementation of specific reforms after initial disbursement;

IV. Policies vigorously promoting open markets and liberalization of trade in goods and services;

V. Policies providing that financing by the Fund concentrates chiefly on short-term balance of payments financing;

VI. Policies providing for the use, in conjunction with the Bank, of appropriate qualitative and quantitative indicators to measure progress toward graduation from receiving financing on concessionary terms, including an estimated timetable by which countries may graduate over the next 15 years.
Legislative Provisions
Section 605(d) of the Foreign Operations, Export Financing, and Related Programs Appropriations Act, 1999

On a quarterly basis, the Secretary of the Treasury shall report to the appropriate committees on the standby or other arrangements of the Fund made during the preceding quarter, identifying separately the arrangements to which the policies described in section 601(4) of this title apply and the arrangements to which such policies do not apply.
## Report to Congress on International Monetary Fund Lending

**October 1, 2007 – September 30, 2009**

**October 1, 2007 – March 31, 2008**

<table>
<thead>
<tr>
<th>Board Approval Date</th>
<th>Country</th>
<th>Amount</th>
<th>Type*</th>
<th>U.S. Position</th>
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<td>10/05/2007</td>
<td>Nicaragua</td>
<td>SDR 71.5 million</td>
<td>PRGF</td>
<td>Support</td>
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<td>12/19/2007</td>
<td>Iraq</td>
<td>SDR 475.36 million</td>
<td>SBA</td>
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<td>(US$744 million)</td>
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<td>12/21/2007</td>
<td>Guinea</td>
<td>SDR 48.195 million</td>
<td>PRGF</td>
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<td>(US$75.2 million)</td>
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<td>01/28/08</td>
<td>Guinea-Bissau</td>
<td>SDR 1.775 million</td>
<td>EPCA</td>
<td>Abstain</td>
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<td></td>
<td>($2.8 million)</td>
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<td>Dominica</td>
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<td>($3.3 million)</td>
<td>Assistance</td>
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<td>03/14/08</td>
<td>Liberia</td>
<td>SDR 239.02 million</td>
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<td></td>
<td></td>
<td>($391 million)</td>
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<td>SDR 342.77 million</td>
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<td></td>
<td></td>
<td>($561 million)</td>
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*Notes:*

1. PRGF: Poverty Reduction and Growth Facility; SBA: Stand-By Arrangement; EPCA: Emergency Post-Conflict Assistance; EFF: Extended Fund Facility

2. The policies described in section 601(4) of the Foreign Operations, Export Financing, and Related Programs Appropriations Act 1999 did not apply to any of the programs above.
### April 1 – June 30, 2008

<table>
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<th>Board Approval Date</th>
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<th>Type</th>
<th>U.S. Position (Reason)</th>
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<td>04/02/08</td>
<td>Bangladesh</td>
<td>SDR 133 million ($217.7 million)</td>
<td>Emergency Assistance</td>
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<td>Côte d’Ivoire</td>
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<td>Togo</td>
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<td>05/28/08</td>
<td>Niger</td>
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<td>05/28/08</td>
<td>Mali</td>
<td>SDR 27.99 million ($45.7 million)</td>
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<td>06/04/08</td>
<td>Zambia</td>
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<td>06/16/08</td>
<td>Benin</td>
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<td>06/18/08</td>
<td>Central African Rep.</td>
<td>SDR 8.355 million ($13.5 million)</td>
<td>PRGF Augmentation</td>
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<td>06/20/08</td>
<td>Haiti</td>
<td>SDR 16.38 million ($26.5 million)</td>
<td>PRGF Augmentation</td>
<td>Support</td>
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</table>

**Notes:**


2. The policies described in section 601(4) of the Foreign Operations, Export Financing, and Related Programs Appropriations Act 1999 did not apply to any of the programs above.
**July 1 – September 30, 2008**

<table>
<thead>
<tr>
<th>Board Approval Date</th>
<th>Country</th>
<th>Amount</th>
<th>Type*</th>
<th>U.S. Position (Reason)</th>
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<tr>
<td>07/02/08</td>
<td>Republic of Madagascar</td>
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<td>PRGF Augmentation</td>
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<td>07/14/08</td>
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<td>07/28/08</td>
<td>Guinea</td>
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<td>09/10/08</td>
<td>Nicaragua</td>
<td>SDR 6.5 million</td>
<td>PRGF Augmentation</td>
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<td>SDR 477.1 million</td>
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<td>($29 million)</td>
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* **Notes:**
  1. PRGF: Poverty Reduction and Growth Facility; SBA: Stand-By Arrangement
  2. The policies described in section 601(4) of the Foreign Operations, Export Financing, and Related Programs Appropriations Act 1999 did not apply to any of the programs above.
### October 1 – December 31, 2008

<table>
<thead>
<tr>
<th>Board Approval Date</th>
<th>Country</th>
<th>Amount</th>
<th>Type*</th>
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<td>Ukraine</td>
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<tr>
<td>11/06/08</td>
<td>Hungary</td>
<td>SDR 10.5 billion ($15.7 billion)</td>
<td>SBA</td>
<td>Support</td>
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<tr>
<td>11/14/08</td>
<td>Seychelles</td>
<td>SDR 17.6 million ($26.1 million)</td>
<td>SBA</td>
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<tr>
<td>11/14/08</td>
<td>Lebanon</td>
<td>SDR 25.375 million ($37.6 million)</td>
<td>EPCA</td>
<td>Support</td>
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<tr>
<td>11/17/08</td>
<td>Armenia</td>
<td>SDR 9.2 million ($13.6 million)</td>
<td>PRGF</td>
<td>Support</td>
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<tr>
<td>11/19/08</td>
<td>Iceland</td>
<td>SDR 1.4 billion ($2.1 billion)</td>
<td>SBA</td>
<td>Support</td>
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<tr>
<td>11/24/08</td>
<td>Pakistan</td>
<td>SDR 5.169 billion ($7.6 billion)</td>
<td>SBA</td>
<td>Support</td>
</tr>
<tr>
<td>12/03/08</td>
<td>Malawi</td>
<td>SDR 52.05 million ($77.1 million)</td>
<td>ESF</td>
<td>Support</td>
</tr>
<tr>
<td>12/08/08</td>
<td>Republic of Congo</td>
<td>SDR 8.46 million ($12.53 million)</td>
<td>PRGF</td>
<td>Support</td>
</tr>
<tr>
<td>12/10/08</td>
<td>Kyrgyz Republic</td>
<td>SDR 66.6 million ($100 million)</td>
<td>ESF</td>
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<td>12/15/08</td>
<td>Comoros</td>
<td>SDR 1.1 million ($1.7 million)</td>
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<td>Support</td>
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<td>SDR 2.2 million ($3.4 million)</td>
<td>ESF</td>
<td>Abstain (Program Design)</td>
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<tr>
<td>12/19/08</td>
<td>Senegal</td>
<td>SDR 48.54 million ($75.6 million)</td>
<td>ESF</td>
<td>Support</td>
</tr>
<tr>
<td>12/22/08</td>
<td>Sierra Leone</td>
<td>SDR 10.4 million ($16.1 million)</td>
<td>PRGF Augmentation</td>
<td>Support</td>
</tr>
<tr>
<td>12/23/08</td>
<td>Latvia</td>
<td>SDR 1.52 billion ($2.35 billion)</td>
<td>SBA</td>
<td>Support</td>
</tr>
</tbody>
</table>

*Notes:
1. EPCA: Emergency Post-Conflict Assistance; ESF: Exogenous Shocks Facility; PRGF: Poverty Reduction and Growth Facility; SBA: Stand-By Arrangement

2. The policies described in section 601(4) of the Foreign Operations, Export Financing, and Related Programs Appropriations Act 1999 did not apply to any of the programs above.
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<thead>
<tr>
<th>Board Approval Date</th>
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<th>Type*</th>
<th>U.S. Position (Reason)</th>
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<tbody>
<tr>
<td>01/12/09</td>
<td>Belarus</td>
<td>SDR 1.62 billion ($2.46 billion)</td>
<td>SBA</td>
<td>Voted No (Program Design)</td>
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<td>01/16/09</td>
<td>El Salvador</td>
<td>SDR 513.9 million ($800 million)</td>
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<td>01/16/09</td>
<td>Republic of Serbia</td>
<td>SDR 350.8 million ($530.3 million)</td>
<td>SBA</td>
<td>Support</td>
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<td>01/23/09</td>
<td>Ethiopia</td>
<td>SDR 33.425 million ($50 million)</td>
<td>ESF</td>
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<td>02/11/09</td>
<td>Haiti</td>
<td>SDR 24.57 million ($36.6 million)</td>
<td>PRGF Augmentation</td>
<td>Support</td>
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<tr>
<td>02/18/09</td>
<td>Belize</td>
<td>SDR 4.7 million ($6.9 million)</td>
<td>Emergency Assistance</td>
<td>Support</td>
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<td>02/18/09</td>
<td>The Gambia</td>
<td>SDR 6.215 million ($9.2 million)</td>
<td>PRGF Augmentation</td>
<td>Support</td>
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<tr>
<td>03/02/09</td>
<td>São Tomé &amp; Príncipe</td>
<td>SDR 2.59 million ($3.8 million)</td>
<td>PRGF</td>
<td>Support</td>
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<tr>
<td>03/06/09</td>
<td>Republic of Armenia</td>
<td>SDR 368 million ($540 million)</td>
<td>SBA</td>
<td>Support</td>
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<td>03/11/09</td>
<td>D. R. Congo</td>
<td>SDR 133.25 million ($195.5 million)</td>
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<td>03/27/09</td>
<td>Côte d’Ivoire</td>
<td>SDR 373.98 million ($565.7 million)</td>
<td>PRGF</td>
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</table>

*Notes:
1. EPCA: Emergency Post-Conflict Assistance; ESF: Exogenous Shocks Facility; PRGF: Poverty Reduction and Growth Facility; SBA: Stand-By Arrangement
2. The policies described in section 601(4) of the Foreign Operations, Export Financing, and Related Programs Appropriations Act 1999 did not apply to any of the programs above.
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<thead>
<tr>
<th>Board Approval Date</th>
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<td>Mongolia</td>
<td>SDR 153.3 million ($229.2 million)</td>
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<td>04/10/09</td>
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<td>04/17/09</td>
<td>Mexico</td>
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<td>04/21/09</td>
<td>Tajikistan, Republic of</td>
<td>SDR 78.3 million ($116 million)</td>
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<td>04/22/09</td>
<td>Guatemala</td>
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<td>05/01/09</td>
<td>Zambia</td>
<td>From SDR 48.91 million ($79.2 million) to SDR 220.095 million ($329.7 million)</td>
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<td>Romania</td>
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<td>Support</td>
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<td>05/06/09</td>
<td>Poland, Republic of</td>
<td>SDR 13.69 billion ($20.58 billion)</td>
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<td>05/11/09</td>
<td>Colombia</td>
<td>SDR 6.966 billion ($10.5 billion)</td>
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<td>05/15/09</td>
<td>St. Kitts and Nevis</td>
<td>SDR 2.225 million ($3.4 million)</td>
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<td>05/15/09</td>
<td>St. Vincent and the Grenadines</td>
<td>SDR 3.735 million ($5.7 million)</td>
<td>RAC-ESF</td>
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<tr>
<td>05/15/09</td>
<td>Serbia, Republic of</td>
<td>From SDR 350.8 million ($530.3 million) to SDR 2.62 billion ($4 billion)</td>
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<td>Support</td>
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<td>Kenya</td>
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<td>Support</td>
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<tr>
<td>06/19/09</td>
<td>Senegal</td>
<td>From SDR 48.54 million ($74 million) to SDR 121.35 million ($186 million)</td>
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<td>Support</td>
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<td>06/22/09</td>
<td>Armenia</td>
<td>From SDR 368 million ($540 million) to SDR 533.6 million ($822.7 million)</td>
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<td>Support</td>
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<td>06/24/09</td>
<td>Benin</td>
<td>From SDR 15.48 million ($23.52 million) to SDR 24.77 million ($38.44 million)</td>
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<td>Support</td>
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<td>SDR 113.6 million ($176 million)</td>
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</table>

**Notes:**

2. The policies described in section 601(4) of the Foreign Operations, Export Financing, and Related Programs Appropriations Act 1999 did not apply to any of the programs above.
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<td>07/10/09</td>
<td>Dominica</td>
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<td>07/15/09</td>
<td>Ghana</td>
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<td>PRGF</td>
<td>Support</td>
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<tr>
<td>07/24/09</td>
<td>Sri Lanka</td>
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<td>Abstain</td>
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<td>SDR 6.89 million (US$10.7 million)</td>
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<td>Pakistan</td>
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<td>Support</td>
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<td>SDR 13.57 million ($21.5 million)</td>
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</table>

*Notes:


2. The policies described in section 601(4) of the Foreign Operations, Export Financing, and Related Programs Appropriations Act 1999 did not apply to any of the programs above.