

## **Executive Summary**

The U.S. Department of the Treasury (Treasury) presents this report consistent with section 1701 of the International Financial Institutions Act, as amended by the Omnibus Appropriations Act, 1999 (P.L. 105-277, Div. A §101(d) [Title V, §583]), which directs the Chairman of the National Advisory Council on International Monetary and Financial Policies (the Secretary of the Treasury, as designated pursuant to Executive Order 11269 of February 14, 1966, as amended) 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 in the coming year;
- (5) The progress made and steps taken to achieve United States policy goals (including major policy goals embodied in current law) with respect to the international financial institutions; and
- (6) Such data and explanations concerning the effectiveness, operations, and policies of the international financial institutions, such recommendations concerning the international financial institutions, and such other data and material as the Chairman may deem appropriate.

The international financial institutions (IFIs) play an essential role in ensuring financial stability, enhancing global security, promoting U.S. and global economic growth, fighting poverty and addressing environmental challenges, enhancing food security, and responding to emerging crises and emergency situations. In the multilateral development banks (MDBs), the capital increase negotiations concluded in 2010, as well as the replenishments of their concessional windows in 2011, have offered the opportunity to promote critical reforms for institutional and development effectiveness, many of which were launched in the past year and will continue implementation in the year ahead.

It is critical to retain America's leadership in these vital institutions, which advance our national security, economic interests, and values. Looking ahead, the MDBs will continue to have an important role in supporting peaceful and orderly transition in areas like the Middle East and North Africa.

This report covers the calendar year 2011 through June 2012 and looks at prospects for 2012 overall. It also includes the Report to Congress on the International Development Association's Contributions to Graduation, consistent with 22 U.S.C. § 262r-6(b)(2).

## **International Monetary Fund**

### **Key U.S. Policy Goals Advanced by the IMF<sup>1</sup>**

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

**Effective Surveillance:** Surveillance is at the core of the IMF's mandate. The IMF is charged with providing effective bilateral surveillance over countries' policies as well as oversight of the global economy to ensure coordination of policies. The June 2007 Decision on Bilateral Surveillance over Members' Policies (which updated the 1977 Decision on Surveillance over Exchange Rate Policies) provided a framework for strengthening exchange rate surveillance, and since the Decision, the clarity and sophistication of exchange rate assessments in Article IV consultations has improved significantly. Following the global financial crisis, the IMF took steps to strengthen multilateral surveillance, adding new tools such as the Fiscal Monitor and the Early Warning Exercise to better identify risks to the global system. In 2011, the Fund launched a new surveillance product called "spillover reports" that assesses spillovers from the five largest economies. In 2012, the IMF produced a pilot External Sector Report (ESR), which represents a substantial enhancement to the IMF's work on external analysis, as it includes much greater in-depth coverage of IMF exchange rate assessments, as well as assessments of reserves, drivers of current account imbalances, and capital flows and measures. The IMF also adopted in July 2012 the Integrated Surveillance Decision, which updates the June 2007 legal framework to reflect the already existing increased focus by the IMF on multilateral surveillance, while retaining all of the critical elements in exchange rate surveillance from the 2007 Decision.

The United States has continued to press for strengthened surveillance, and Treasury leadership was critical in enabling the IMF Executive Board to reach agreement on the 2007 Decision on Bilateral Surveillance, as well as publication of a pilot External Sector Report. Treasury has pressed for increased candor, transparency, and evenhandedness of IMF exchange rate surveillance as part of the G-20 agenda. In addition, Treasury has been engaged in a careful multilateral effort in the G-20 and supported by the IMF to establish stronger norms for exchange rate policy and to identify and mitigate sources of future economic imbalances.

**Strong, Sustainable and Balanced Growth:** The IMF is providing support to the G-20 Framework for Strong, Sustainable, and Balanced Growth to help put the global economy firmly on the path to recovery. Specifically, the IMF is conducting an independent assessment of members' progress against past G-20 Leaders' commitments, with a focus on exchange rate, fiscal, and structural commitments; providing advice on an enhanced accountability assessment process to measure progress against past policy commitments; and undertaking enhanced monitoring and

---

<sup>1</sup> This addresses item (5) of the topics under the legislative requirement.

analysis of near-term global risks and vulnerabilities with a special focus on the euro area that looks into the causes of internal imbalances and proposes policy measures to address the crisis and minimize spillovers. In addition, the IMF is evaluating the collective consistency of G-20 members' policies and the ability of those policies to achieve the goals of strong, sustainable, and balanced global growth.

Transparency/Accountability: The IMF promotes transparency through its strong data standards, which it collects and publishes. Effective bilateral and multilateral IMF surveillance requires provision of timely, full, and accurate data. Transparency is a key determinant of the Fund's effectiveness in contributing to global monetary stability and in building broader economic knowledge. The IMF's collection and publication of comparable data – including on exchange rates and reserves – remains a top U.S. priority. The IMF has begun collecting and disseminating comparable cross-country data in new areas, such as the Financial Soundness Indicators, but more progress is needed. The United States has strongly urged the Fund to address instances of excessively delayed Article IV reviews. In February 2012, the Executive Board passed a set of measures that will be taken in response to excessive delays in the completion of Article IV consultations, including published listings of those members and notices from the IMF Managing Director.

Budget Discipline: When IMF lending declined in the mid-2000s, the resulting steep drop in income forced IMF management and shareholders to rethink how to place the institution's finances on a sustainable footing. The United States insisted that significant budget cuts accompany any proposed changes to the IMF's income model, and that the IMF move away from relying primarily on lending income to generating funds from various sources. As a result, over 2008-2010 the IMF executed a budget that included a 10 percent staff cut and reduced the annual budget by \$100 million (10 percent of the total budget). This was accomplished despite the intense pressure caused by the global financial crisis. Since then, the IMF has maintained a tight budgetary framework (with some allowance to meet crisis lending). The IMF is proceeding with its plan to establish an endowment funded from the proceeds of the sale of a portion of its gold resources, which was completed in December 2010.<sup>2</sup> The endowment will help finance the IMF's operating budget and thus put its finances on a more sustainable path in the long term. The United States will press the IMF to ensure that the endowment incorporates best practices with regard to both investment strategy and governance structure, thus protecting IMF resources.

---

<sup>2</sup> The gold sales generated profits of approximately \$10.8 billion, of which \$7 billion is for the establishment of the endowment and \$1 billion will be used to boost the subsidy resources of the IMF's Poverty Reduction and Growth Trust (PRGT) for low-income country members. IMF membership is still considering the disposition of the remaining \$2.8 billion in additional windfall profits. The United States again strongly supports the use of these profits to support low-income countries in the IMF.

### **Assessment of the Effectiveness of the IMF's Major Policies and Operations<sup>3</sup>**

The 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 and financial sector surveillance.

Effective crisis response: The IMF continues to play a central role in international efforts to resolve and prevent the spread of global economic and financial crises. It does so by providing its members with timely policy advice and financing for those that are experiencing balance of payments crises. New lending commitments in FY 2010 were more than \$115 billion and over \$73 billion in FY 2011 (ending September 30, 2011).

It is important that the IMF maintains its ability to respond quickly and flexibly to crises when they occur. Current financial stresses in Europe's periphery pose major risks to the global economic and financial system and to the U.S. recovery. The United States is deeply invested in the successful resolution of the current crisis because we have no bigger, no more important economic relationship than with Europe. Europe accounts for over 20 percent of U.S. goods exports and over 35 percent of U.S. service exports. Also, Europe is the most significant foreign source of investment and jobs in America – the total stock of European foreign direct investment (FDI) at \$1.6 trillion accounts for 70 percent of all FDI in the United States.

Working closely with the European Union, which made funds available to its members through bilateral loans from the European Financial Stabilization Mechanism and the European Financial Stability Facility, the IMF has played a key role in lending and providing policy advice to establish foundations for fiscal adjustment and structural reforms. Europe will continue to actively manage the challenges it faces with support from the IMF. The IMF's capacity to continue playing its role has been bolstered by new bilateral loan commitments from the IMF's creditor members totaling more than \$450 billion.

The United States, in cooperation with the IMF and the broader international financial community, including the G-20, has consistently promoted a strengthened framework for crisis resolution and prevention. In 2009, the IMF created the Flexible Credit Line (FCL) to make it easier for the IMF's strongest-performing member countries to access resources rapidly to prevent the spread of a crisis. In 2010, the IMF modified this instrument to make more funds available for a longer period of time. In 2010, the IMF created the Precautionary Credit Line (PCL), which provided a more limited crisis prevention line of credit to members with sound fundamentals, policies, and institutional policy frameworks but moderate vulnerabilities that would not meet the FCL's strong qualification standard. In November, 2011, the PCL was broadened to allow countries with sound policies to draw immediately upon approval to meet actual financing needs. It is now called the Precautionary and Liquidity line (PLL).

Finally, a critical component of the international community's response to the global financial crisis was ensuring that the IMF had adequate resources to address the needs of low-income countries (LICs). LICs were impacted by the crisis through sharp drops in exports, FDI, and

---

<sup>3</sup> This also addresses item (6) of the topics under the legislative requirement.

remittances. In 2009, the United States strongly advocated, and the IMF Executive Board approved, a package to greatly increase the resources available to LICs and to reform LIC facilities to increase their flexibility. Resources from the sale of IMF gold and other internal sources were mobilized to more than double the Fund's medium-term concessional lending capacity through 2014. Using these resources, the IMF tripled concessional lending in 2009 and early 2010 to LICs.

Surveillance: IMF surveillance of members' exchange rates is at the core of the IMF's responsibilities. As discussed above, the IMF has made important progress toward enhancing exchange rate surveillance since 2007. Nonetheless, the IMF still has scope to perform better in fulfilling the important task of bilateral exchange rate surveillance. Treasury continues to work with the IMF to further strengthen IMF surveillance of exchange rate policies, focusing in particular on increasing the candor and transparency of IMF exchange rate assessments.<sup>4</sup> For the IMF to fulfill its central role in the international monetary system, it must continue to strengthen its efforts to exercise clear surveillance over IMF members' exchange rate policies, and it must be prepared to make tough judgments, especially when evaluating large countries that have systemic implications. Without such candid surveillance, the global imbalances that contributed to the recent crisis risk go unaddressed and pose a threat to future global economic stability. In the period ahead, we will carefully monitor the situation with a view to ensuring that the Fund undertakes rigorous and high-quality analyses. The IMF's decision in 2012 to publish a pilot External Sector Report, with substantially more comprehensive information on exchange rates, reserves, intervention and capital flows, represents an important step forward in this regard. We will urge the IMF to continue efforts to further strengthen the analytical rigor and transparency of this product.

The IMF also has a critical surveillance role in the G-20 Framework for Strong, Sustainable, and Balanced Growth (Framework). G-20 leaders agreed in November 2010 at the G-20 Seoul Summit that the Framework would be strengthened by using the full range of available policies to promote external sustainability and reduce large current account imbalances to sustainable levels. The aim of the enhanced Framework process is to foster the global adjustment process that is underway in a manner that protects and strengthens global growth while also reducing external imbalances to manageable levels, thus enhancing the sustainability of the recovery. To offset the need for deficit countries to save more, surplus economies will need to ensure strong growth of domestic demand. The focus on external sustainability and the reduction of large imbalances to more sustainable levels would prompt the kinds of adjustment policies that the global economy needs.

At the November 2011 G-20 Cannes Summit, the IMF presented an independent assessment (as part of the Framework) on progress towards external sustainability and the root causes of large imbalances. The IMF's assessment and recommended policies to address the imbalances were used as inputs to the Leaders' Cannes Action Plan for Growth and Jobs. The Cannes Action Plan also called on the IMF to assist the G-20 to enhance monitoring in 2012 and future years and to

---

<sup>4</sup> For further discussion on IMF exchange rate surveillance, see link below to Appendix 2: Report to Congress on IMF Bilateral and Multilateral Surveillance over Member's Policies of the Report to Congress on International Economic and Exchange Rate Policies, October 15, 2009 (<http://www.treasury.gov/resource-center/international/exchange-rate-policies/Documents/Appendix%20%20Final%20October%2015%202009.pdf> )

develop a framework for assessing progress against past commitments, particularly on exchange rate, fiscal, and structural commitments. The G-20 Finance Ministers presented the results of these efforts at the G-20 Los Cabos Summit in June 2012.

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

By the end of September 2011, over 130 countries had completed FSAP assessments or updates and another 35 are in the pipeline or underway. The United States completed an FSAP in July 2010. In September 2010, it was agreed that financial stability assessments for jurisdictions with systemically important financial sectors, which include the United States, must take place at least once every five years as a mandatory part of Fund surveillance.

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

Quotas: The United States participates in the IMF through a quota subscription. Quotas are the metric used by the IMF to assign voting rights, to determine contributions to the IMF's general resources, and to determine access to IMF financing. In April 2008, IMF members reached agreement on a quota reform package as a first step to modernize the IMF's governance structure to keep pace with the rapid growth and greater economic weight of dynamic emerging market countries in the global economy. On June 24, 2009, the Supplemental Appropriations Act, 2009 (U.S. Public Law 111-32), was enacted, providing authorization and appropriations for an increase in the U.S. quota share in the IMF by the dollar equivalent of 4.97 billion Special Drawing Rights (SDRs) (about \$7.71 billion as of June 24, 2009) as well as an increase in the U.S. participation in the New Arrangements to Borrow (NAB; discussed below). This increase in the U.S. quota share was completed in March 2011.

At the Pittsburgh Summit in September 2009, G-20 Leaders agreed to further reform in IMF quotas to shift at least five percent of quota share to dynamic and underrepresented emerging markets. A reform package was agreed in the Fall of 2010 at the G-20 summit in Seoul that secured significant reform of the Fund's governance structure and voting rights in order to better reflect today's global economy and enhance the Fund's legitimacy and effectiveness going forward. In particular, the reform will double quotas, offset by a corresponding rollback of the NAB; amend the Fund's Articles of Agreement to move to an all elected Executive Board;<sup>5</sup> shift more than six percent of quota shares to dynamic emerging market and developing countries; and preserve the quota and voting share of the poorest member countries. These reforms preserve the

---

<sup>5</sup> Under an all-elected Board, the U.S. would retain its single seat.

United States' ability to exercise a veto on major institutional and financial decisions. One hundred twenty members representing 72.6 percent of quota have agreed to the quota increase. The United States' approval is pending.<sup>6</sup>

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

In April 2009, G-20 Leaders committed to increase the size of the NAB by up to \$500 billion. In November 2009, existing and potential new NAB participants met in Washington and agreed to amend and increase the NAB to more than \$550 billion, delivering on the G-20 Leaders' commitment. As part of this agreement, the United States led the way by committing to increase its participation in the NAB by up to \$100 billion. The expanded NAB became effective on March 11, 2011. U.S. participation in the NAB totals up to SDR 69 billion or about \$104 billion, which includes U.S. participation in the General Agreements to Borrow (GAB).<sup>7</sup> In 2012, the IMF secured additional resource commitments from creditor members totaling more than \$450 billion, although the agreements are not yet effective; the United States did not participate in this most recent round of bilateral borrowing by the Fund.

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

International Monetary System: In 2011, the IMF examined several issues related to the current international monetary system. The key areas that were tackled by the IMF included managing capital flow volatility and assessing reserve adequacy. The IMF also discussed, but did not change, the criteria for new currencies' inclusion in the SDR basket. The G-20 also discussed several of these issues in 2011, informed primarily by the IMF's work in this area.

On managing volatile capital flows, the IMF is working toward a consistent framework to advise member countries, particularly emerging markets, about how to determine the appropriate response to a surge in capital inflows. The IMF is seeking to increase its coverage of capital account issues in its standard bilateral surveillance and to provide more consistent advice to member countries. The IMF also established a new metric for determining reserve adequacy and is working to integrate this metric into its standard surveillance practices.

In calendar year 2011, the IMF Board approved fourteen lending arrangements, of which six were for low-income country members under the Poverty Reduction and Growth Trust (PRGT) facilities. The Board approved ten new arrangements in the first six months of 2012, of which six were under the PRGT. New IMF commitments totaled \$150 billion in 2011 and \$37.8 billion in the first half of 2012.

---

<sup>6</sup> Before the quota increase can take effect amendment on reform of the Executive Board must be approved by three-fifths of the Fund's 188 members (or 113 members) having 85 percent of the Fund's total voting power is required. As of July 27, 2012, 93 members having 58.99 percent of total voting power had accepted the amendment,

<sup>7</sup> The GAB is a standing borrowing arrangement that preceded the NAB and totals about \$26 billion, of which the U.S. share is about 25 percent.

Strengthening Global Financial Safety Nets/Precautionary Facilities Reform: The IMF continued to refine its precautionary lending toolkit after the facilities reforms in 2009 and 2010. Macedonia became the first recipient of a Precautionary Credit Line (PCL) in January 2011. In 2011, the PCL was broadened as an instrument for strong performing countries that have actual or potential balance of payments needs and was renamed as the Precautionary and Liquidity Line (PLL). Morocco received the first PLL in August 2012. The IMF also streamlined existing instruments for emergency assistance by forming the Rapid Financing Instrument (RFI), which addresses urgent balance of payments needs specifically from post-conflict and natural disaster situations.

Improving IMF Surveillance: In 2011, the IMF conducted its Triennial Surveillance Review (TSR) to assess the IMF's recent experience with surveillance and provide recommendations for strengthening future surveillance. The TSR covered the period from late 2008 through mid-2011 and took stock of new surveillance vehicles launched in response to the crisis, such as the Early Warning Exercise, the Vulnerabilities Exercise for Advanced Economies, and the Fiscal Monitor. Under the report's recommendations, the Fund will continue its work on spillovers and enhance cross-country analysis in Article IVs, which will help to strengthen risk detection. The report also recommended that the Fund publish an assessment of external balances and bolster the effectiveness of financial sector surveillance.

In addition to the TSR, the IMF launched two new surveillance products in 2011. Spillover reports are aimed at assessing the impact of outward spillovers from countries whose policies significantly affect stability of the international monetary system. In 2011, spillover reports were produced for China, the United States, the United Kingdom, Japan, and the Euro area, and released in conjunction with these jurisdictions' Article IV reports. The Fund also expanded the Vulnerabilities Exercise – an inter-departmental surveillance tool aimed at identifying underlying vulnerabilities in advanced and emerging economies – to include Low-Income Countries.

### **Major Prospects in the Coming Year**

Budget Discipline: The United States continues to advocate for IMF budget discipline. In line with IMF comparator markets such as the United States and other advanced economies, IMF staff compensation, which makes up a large share of the IMF budget, will remain constant in 2012. More broadly, the Fund will maintain its tight budgetary framework in FY13.

Governance Reform: In November 2010, G-20 leaders also agreed on reforms of the IMF's governance structure that represent a major step forward in making the IMF more effective, credible, and legitimate by better reflecting today's global economy. Securing the legitimacy and good governance of the IMF is vital to our economic and national security interests. Specifically, G-20 leaders committed (and the IMF membership subsequently agreed) to eliminate two advanced European chairs from the IMF's Executive Board in order to make room for, and provide greater voice to, additional emerging market and developing country chairs.

Surveillance: The United States continues to advocate for the improvement of IMF surveillance, emphasizing in particular the importance of rigorous surveillance on exchange rate policies. The

recent crisis highlighted the need for the IMF to improve surveillance on a broader range of risks to the global economy. This year, the IMF is working to integrate bilateral and multilateral surveillance and look more closely at the wide range of global and country level risks to economic and financial stability, including spillover effects. As one measure, the IMF Board adopted the Integrated Surveillance Decision (Decision) in July 2012. This Decision has an increased focus on the IMF's multilateral work, such as spillover analysis and assessments of the global economy and financial systems, while retaining those aspects of the 2007 Decision that provide guidance to members on exchange rate policies and to the Fund on exchange rate surveillance. The IMF has produced a pilot External Sector Report, which assesses the range of factors that impact external stability, including exchange rates, reserves, capital flows, and fiscal, financial and monetary policy. The report aims to identify the sources of imbalances and whether these pose risks to external stability. The IMF continues to work to enhance its methodology for assessing exchange rates and drivers of current account imbalances, which will be refined over the coming months, providing the basis for further strengthening analytical rigor and transparency of the ESR.

Quota formula review: G-20 leaders agreed at the G-20 summit in Seoul to complete by January 2013 a review of the IMF's formula, which plays a significant role in determining quota share. At their summit in Los Cabos, G-20 Leaders agreed that the formula should be simple and transparent, consistent with the multiple roles of quotas, result in calculated shares that are broadly acceptable to the membership, and be feasible to implement based on timely, high quality and widely available data. A formula based on transparent, and readily identifiable elements – of which GDP is the clearest and strongest variable – would enhance the legitimacy of the Fund.

IMF Programs: The Fund, in partnership with the Europeans, will continue to play an important part in promoting more orderly adjustment in the Euro Area by offering financing to support economic reforms and undertaking regular surveillance of Eurozone member countries' economic and financial policies, as it does with all members. The Fund is also playing a critical role in providing support to countries as they undergo political and economic transition in the context of the Arab Spring. In addition, the IMF will continue to fulfill its core mandate to provide a safety net more broadly to global economic and financial stability.

## **Multilateral Development Banks**

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

The Multilateral Development Banks (MDBs) are instrumental in advancing key U.S. objectives throughout the world in a way that significantly leverages U.S. investments. The MDBs are the most leveraged and sustainable assistance tool that the United States has at its disposal. For example, the United States contributed \$420 million to the World Bank during its 1988 capital increase. In the ensuing two decades, this investment supported \$325 billion in cumulative lending that supported our national security and poverty alleviation priorities. U.S. commitments represent only a fraction of the resources that the MDBs bring to bear; the President's Fiscal Year (FY) 2013 budget request of \$2.6 billion is expected to support nearly \$80 billion in MDB lending.

Historically, the United States has been the largest shareholder at the World Bank, the Asian and Inter-American Development Banks, and the European Bank for Reconstruction and Development, and the largest non-regional shareholder at the African Development Bank. In fact, the United States led in the founding of most of these institutions, which have enjoyed a long history of bipartisan support. As a result of our contributions and standing within the MDBs, the United States has successfully exerted strong leadership in shaping the policies and priorities of the MDBs in line with U.S. goals, particularly the following key U.S. priorities:

National security: The MDBs are essential partners with the United States in confronting and containing emerging threats to U.S. national security. Recent developments for two of the most important areas of MDB engagement are as follows.

- *Afghanistan*: In Afghanistan, the World Bank and the Asian Development Bank are the largest donors after the United States. The Asian Development Bank recently decided to postpone the phase-out of exceptional post-conflict assistance to Afghanistan for an additional two years, from 2016 to 2018. This will allow for higher levels of MDB support during this period.
- *The Middle East and North Africa*: The United States has sought the support of the MDBs to anchor economic reforms in the Middle East and North Africa in the wake of the Arab Spring. The MDBs are well-positioned to provide the investments in soft and hard infrastructure that underpin growth, as well as the long-term strategic engagement needed to support the transition to democratic governance and a market economy. For example, in Tunisia alone, the World Bank and the African Development Bank provided a combined \$1 billion in 2011 to support reforms such as improving access to government information, strengthening the financial sector through better regulation, and facilitating the establishment of civil society organizations. In addition, the United States and other shareholders of the European Bank for Reconstruction and Development have agreed to expand the institution's geographic mandate to support economic reform in the Middle East and North Africa.

U.S. economic growth: The MDBs are driving domestic growth by developing open and transparent market economies that will become the next generation of U.S. trading partners, supporting U.S. exports and jobs. The MDBs complement our bilateral assistance programs by leveraging capital to mobilize financing for large-scale infrastructure and other private investment. For example, in countries like Turkey, Colombia, and Indonesia that have benefited from MDB investments, development has fueled rapidly increasing demand for U.S. products. Our exports to these economies have grown by more than 200 percent over the last 10 years. By supporting growth in poor and emerging economies, the MDBs are opening business opportunities abroad and in the United States.

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

Specific examples include the following:

- *Malnutrition:* While national governments and the development community have made significant progress in addressing children's health through immunization programs, risks related to malnutrition remain. Not only does malnutrition have an impact on poor countries' economic development, it also threatens children's lives and well-being by stunting growth. At the inaugural 2012 Development Impact Honors award ceremony, U.S. Treasury recognized a nutrition program in Guyana supported by the Inter-American Development Bank. The program benefited over 41,000 infants in 79 health centers, reducing cases of anemia by 30 percent among pregnant women and children under five years old, as well as reducing the incidence of stunted growth by 21 percent.
- *Water and sanitation:* Investments in water and sanitation are helping to meet the basic human needs of the world's poorest populations. The African Development Bank has completed projects in Malawi, Mozambique, and Zambia that have provided access to clean water and reduced the time that women and children, who are the primary collectors of water, must spend collecting water. Improving water and sanitation facilities has the additional benefit of reducing water-borne diseases, increasing community well-being and productivity.

Critical global priorities: The MDBs are also uniquely positioned to help address critical global priorities such as food insecurity, energy insecurity, and environmental degradation. These complex challenges, which know no geographic boundaries, imperil our prospects for global prosperity and poverty reduction if left unaddressed.

- *Food Insecurity:* This complex challenge was highlighted in 2011 when millions suffered in famine-ravished parts of Africa. The MDBs contributed to the initial, immediate relief effort in the Horn of Africa, with the World Bank approving \$250 million from its new Crisis Response Window in 2011. The crisis also underscored the need to invest in sustainable food security and adaptations of agriculture to changing weather patterns. Consequently, the World Bank, the African Development Bank, and the International

Fund for Agriculture and Development (IFAD) are responding by making crucial investments in agricultural productivity. In addition, the Global Agricultural and Food Security Program (GAFSP), a new, innovative trust fund housed at the World Bank, has worked to address food insecurity in its first two years of operation by providing \$660 million to poor countries that are demonstrating strong leadership and results in transforming their agriculture sectors.

- *Renewable Energy:* The World Bank (Bank) has increased lending to renewable energy and energy efficiency projects, and expects to see continued rapid escalation of lending from its own resources to projects involving clean sources of energy. The Clean Technology Fund, one of the Bank's trust funds, supports 15 countries in implementing 63 projects to help their economies move towards reliable, diversified, and more cost-effective energy supplies. In addition, at the Asian Development Bank, clean energy investments hit \$2.1 billion in 2011, exceeding its target of \$2.0 billion by 2013. In another example, the European Bank for Reconstruction and Development partnered with Turkish banks and other investors to create a \$1.46 billion fund for large scale renewable energy and industrial energy efficiency projects.
- *Environmental Degradation:* Deteriorating environmental conditions abroad—including drought, loss of biodiversity, desertification, and deforestation—pose a long-term threat to global stability due to the associated migration and scarcity of food and water. Addressing these challenges now will significantly reduce future problems related to environmental mismanagement. The Global Environment Facility has been responsible for conserving nearly 900 million acres so far and has also worked to improve food security by promoting sustainable fisheries management. In 2011, the World Bank Group also instituted a new strategy for engagement in the palm oil sector, seeking to mitigate the negative environmental and social impacts associated with palm oil production. Other MDBs are also focusing on pursuing environmentally sustainable projects and strengthening environmental and social safeguard policies.

In an effort to raise awareness of the vital role of the MDBs, the Treasury Department launched the “Development Impact Honors” in 2011. In June 2012, the Treasury Department recognized four extraordinary MDB projects that exemplified the important work of the MDBs at the inaugural Development Impact Honors award ceremony. The four honorees, supported by the African, Asian, and Inter-American Development Banks as well as the World Bank, were projects addressing a diversity of sectors, from improving telecom connectivity in Afghanistan to preventing deforestation in the Amazon. They were selected based on their innovation, quality of preparation and results, and focus on beneficiaries, among other criteria. Projects like these—which are focused on long-term solutions, use technologies to reduce costs, and are often able to attract private sector funding—demonstrate the value of our investments in the MDBs.<sup>8</sup>

The section on MDBs is divided into two main parts. The first section, Institutional Reform and Effectiveness, addresses elements that are common across several of the MDBs. The second

---

<sup>8</sup> Further details on the recognized projects can be found at <http://www.treasury.gov/press-center/press-releases/Pages/tg1608.aspx>.

section, Multilateral Development Banks: Priorities, Performance, and Reforms, focuses individually on each institution.

### **Institutional Reforms and Effectiveness at the MDBs**

In 2011, the MDBs continued to develop or implement robust reforms, based on commitments made as part of capital increase decisions in 2010 or scheduled MDB concessional fund replenishments in 2011. The 2010 capital increases were requested to bolster depleted resources at four of the MDBs so that they could resume normal lending operations. These MDBs included the World Bank, the African Development Bank, the Asian Development Bank, and the Inter-American Development Bank. Replenishments for the Asian Development Fund and IFAD also occurred in 2011, which were needed to provide grants and low-cost loans to countries of operation.

The United States used the opportunity created by these funding negotiations to secure new policy commitments from the MDBs of interest to the United States. These reforms focus extensively on the adoption and strengthening of policies and procedures needed to promote the sound and effective use of resources (including stronger financial discipline), improved governance and accountability, and enhanced development impact and effectiveness. We believe that the MDBs' effectiveness has been strengthened in a positive and enduring way by the adoption of these reforms.

Each MDB also has an independent evaluation department that assesses project effectiveness. Recommendations from these departments have fed into management reforms to improve outcomes. Although all of the MDBs integrate lessons learned into the development of new projects, some of them have taken steps to formalize this process. Finally, the MDBs continue to move forward with improvements in the frameworks that they use to design projects and report results.

Some key areas to highlight include the following:

**Anti-corruption:** Recognizing that anti-corruption measures are important to the operations of multilateral institutions, the U.S. Treasury and U.S. Executive Directors have taken every opportunity to ensure that the MDBs are leaders in this area. As part of the reform agenda, the United States has sought and achieved a major overhaul of disclosure policies and strengthened anti-corruption measures, most notably through a cross-debarment agreement, under which the debarment of firms for fraudulent behavior in one Bank applies to the other four MDBs.

**Results Measurement:** In 2011, the MDBs adopted several reforms to strengthen institutional effectiveness, especially in the area of results measurement. For example, the World Bank instituted a Corporate Scorecard to report on performance and development results across the institution, including the International Bank for Reconstruction and Development (IBRD) and the International Development Association (IDA). Also, the Bank launched a new lending instrument, the Program-for-Results (PforR), which will more closely tie disbursements with

performance indicators.<sup>9</sup> These and other mechanisms are enabling the MDBs to improve development effectiveness on all projects.

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

## **Multilateral Development Banks: Priorities, Performance, and Reforms**

### WORLD BANK GROUP

2012 Priorities: The United States is monitoring closely the introduction of a new lending instrument—the Program-for-Results (PforR). By linking disbursements to results or performance indicators as opposed to inputs, PforR places a more direct emphasis on development impact. The first two PforR projects were reviewed and approved by the Board in June 2012. The United States will scrutinize the Bank’s PforR-related assessments of countries’ systems and capacities, as well as the nature of the programs to be funded, to ensure that sensitive projects are appropriately excluded.<sup>10</sup>

The Bank has also begun a review of its procurement policies—the first such comprehensive review of these policies since the Bank’s establishment. The review will take more than a year and will involve consultations with a wide variety of stakeholders in the business community, academia, and government procurement agencies. Many shareholders object to current policies on the grounds that they do not reflect significant changes in global procurement standards or the nature of the Bank’s business, which the critics contend is no longer exclusively focused on the construction of large infrastructure projects. Other shareholders are concerned that the policies do not foster country-ownership, leading to growing momentum to use a country’s own procurement procedures and policies. The United States will closely monitor the review to ensure that the Bank maintains high standards and supports capacity building in client countries.

The Bank is also undertaking a review of its environmental and social safeguards. The intent is to update and unify the eight environmental and social safeguard policies used for investment lending, as well as its approach to the use of country systems for environmental and social safeguard policies. The U.S. Treasury will look to support a strengthening of the policies across a range of issues including: labor (where the Bank currently has no safeguards policy), social impact assessment generally, and environmental challenges.

Finally, the Mid Term Review of the Sixteenth Replenishment of IDA in November 2012 provides an opportunity to assess key issues of U.S. interest, including increased focus on gender, support for private sector development, the functioning of the Crisis Response Window and the Bank’s commitment to do more rigorous impact evaluations. In early 2013, negotiations for the Seventeenth Replenishment of IDA will begin.

---

<sup>9</sup> In the two-year pilot for initial PforR operations, the World Bank has agreed to cap total IBRD/IDA annual commitments under PforR to five percent annually.

<sup>10</sup> Further details on PforR can be found at:

<http://web.worldbank.org/WBSITE/EXTERNAL/PROJECTS/EXTRESLENDING/0,contentMDK:22748955~pagePK:7321740~piPK:7514729~theSitePK:7514726,00.html>.

Bank Performance in 2011: During the World Bank's fiscal year 2011, the World Bank Group provided \$57.3 billion in commitments.<sup>11</sup> This assistance included the following:

- *\$26.7 billion by the International Bank from Reconstruction and Development (IBRD) in loans and technical assistance to middle income countries, where 70 percent of the world's poor live.* Latin America and the Caribbean received the largest share of IBRD's new lending, with \$9.2 billion, followed by East Asia and Pacific with \$6.4 billion, and Europe and Central Asia with \$5.5 billion. Lending differed across sectors and themes. Among sectors, Public Administration, Law, and Justice received the highest share of commitments (22 percent), followed by the Transportation sector (19 percent), and Energy and Mining as well as Health and Social Services (both at 17 percent). The themes receiving the largest commitments were Financial and Private Sector Development (\$5.6 billion), Environment and Natural Resources Management (\$5 billion), and Social Protection and Risk Management (\$3.9 billion).
- *\$16.3 billion by the International Development Association (IDA) in highly concessional credits and grants to the 79 poorest countries in FY 2011.* In World Bank FY 2011, Africa received \$7 billion, or 43 percent of total IDA commitments. South Asia (\$6.4 billion) and East Asia and Pacific (\$1.6 billion) also received large shares of committed funding. Bangladesh and India were the largest single country recipients of IDA funding in FY 2011. Commitments for infrastructure rose to \$6.9 billion, a 28 percent increase over World Bank FY 2010. Sectors receiving significant commitments were Public Administration, Law, and Justice (\$3.7 billion) and Health and Social Services (\$2.2 billion). The themes receiving the largest commitments were Rural Development (\$3.0 billion), Financial and Private Sector Development (\$2.4 billion), and Urban Development (\$2.0 billion).
- *\$12.2 billion in investments by the International Finance Corporation (IFC), the private sector arm of the World Bank, to support the private sector in developing countries.* In 2011, IFC provided nearly \$19 billion in financing, including funds mobilized from the private sector. The IFC has expanded its work in infrastructure investment and job creation, particularly in the Middle East and North Africa. It has also deepened its engagement with the poorest countries, post-conflict zones, and areas at risk. In World Bank FY 2011, IFC invested nearly \$5 billion in 251 projects in 56 of the world's poorest countries.
- *\$2.1 billion in guarantees by the Multilateral Investment Guarantee Agency (MIGA) to provide political risk insurance.* This is a record high for the Agency, and a 43 percent increase from World Bank FY 2010 when issuance was \$1.5 billion. MIGA guarantees against losses related to currency transfer restrictions, expropriation, war and civil disturbance, breach of contract, and non-honoring of sovereign financial obligations. In World Bank FY 2011, MIGA's activities became more diverse across regions and sectors—from supporting a manufacturing plant in Iraq, to an agribusiness venture in

---

<sup>11</sup> FY 2011 covers July 2010 through June 2011.

Liberia, and banking endeavors funding small and medium enterprises in 14 countries. To further expand its outreach, MIGA also established a regional hub in Asia, signaling an interest in inbound and outbound Asian investment.

### Key Institutional Reforms:

*World Bank/IBRD:* The World Bank is steadily strengthening its processes for measuring and generating performance and development results through the use of its Corporate Scorecard. The Corporate Scorecard uses an integrated results and performance framework, which is organized in a four-tier structure that groups indicators along the results chain. Two of the tiers track elements of development results (Tiers I and II), and the other two capture elements of corporate performance (Tiers III and IV). The Corporate Scorecard monitors, at an aggregate level, whether the Bank is functioning efficiently and adapting itself successfully, and whether it is managing its operations and services effectively to support countries in achieving results in the context of global development progress and priorities. It presents a high-level view and is not intended to provide country- or activity-level information.<sup>12</sup>

In addition, the World Bank adopted a series of human resource reforms to more strongly link the performance evaluation process to reflect results and to more closely link staff pay to performance. The Executive Board voted, with U.S. support, to eliminate a formula that had previously led to automatic annual salary increases. Under the new system, there are no automatic cost-of-living increases. Rather, there is a mix of public sector and private sector labor market indicators used to calculate an overall change in the staff salary structure, which is then apportioned out to staff strictly based on merit.

The Bank has continued to integrate its governance and anticorruption agenda across countries, sectors, and projects. Enforcement has been strengthened through major debarments holding firms accountable for wrongdoing, as well as new cooperation agreements with international agencies to help counter corruption and ensure effective prosecutions. In FY 2011, there were 62 debarments of firms and individuals for wrongdoing, and 14 entities were jointly debarred with other MDBs.

*International Finance Corporation:* The updated Sustainability Framework was adopted in late 2011, and represents substantial progress over the previous framework. Key improvements include extractive industry contract disclosure, strong support for low-carbon development, expansion of the number and type of Financial Intermediary subprojects that would apply IFC requirements and, in the Access to Information Policy, a presumption of disclosure and greater results reporting. The Framework consists of the IFC's Policy on Environmental and Social Sustainability, Performance Standards, and the Access to Information Policy.

The IFC formulated and began testing a new concept, the IFC Development Goals (IDGs), in World Bank FY 2011. The purpose of the IDGs is to integrate results measurement with business strategy by tracking both the IFC's and clients' performances. Six preliminary goals and targets, each covering high-priority areas, were set for World Bank FY 2011, including for

---

<sup>12</sup> More information on the Scorecard can be found at <http://corporatescorecard.worldbank.org/home.html?cmdk=23109237>.

health and education, microfinance and small and medium enterprise (SME) financial services, and infrastructure.

## AFRICAN DEVELOPMENT BANK

2012 Priorities: An important exercise underway at the African Development Bank (AfDB) is the process of developing a Long-Term Strategy to address the challenges and opportunities that will drive the region's development over the next decade, from 2013-2022. This long-term strategy will replace the Medium-Term Strategy, which has guided Bank operations from 2008-2012. Other important policies actively under consultation and development include the integrated environmental and social safeguard system and the new energy policy. The United States will be engaged on these issues to ensure that key U.S. priorities are addressed.

The AfDB has updated its disclosure policy, after consultation with external stakeholders, and implementation will begin later this year. The new policy includes a shift from the previous "positive list" approach, in which disclosure was considered exceptional, to a presumption of disclosure, or "negative list" approach, in which disclosure is considered the default. The policy sets deadlines for responding to requests for information and establishes an appeals process for requests that are denied.

An important development for the continent and the AfDB is the independence of the Republic of South Sudan, which has joined as the 78th member of the AfDB. The AfDB moved swiftly to welcome South Sudan as a new member, and began providing assistance even before the formal membership process was complete. The Bank has established a Resident Representative in Juba and will seek to use its resources to help Africa's newest country.

Bank Performance in 2011: The AfDB committed \$8.7 billion in 2011, which is a 40 percent increase over 2010. AfDB lending in 2011 includes \$1.57 billion to West Africa, \$1.39 billion to North Africa, \$0.94 billion to East Africa, \$0.70 billion to Central Africa, and \$0.62 billion to Southern Africa. The large majority of AfDB lending—\$2.4 billion—was for infrastructure (including regional infrastructure). The AfDB also provided \$1.3 billion for multi-sector projects, \$1.2 billion for the financial sector, \$0.69 billion for the social sector, and \$0.45 billion for industry.

The AfDB has been very responsive to U.S. requests to play a major role in supporting the transitions of the North African countries. For example, the AfDB provided Tunisia with over \$900 million in new commitments over the past year, including budget support designed to promote transparency and economic inclusion. In addition, the Bank has played a leading role as secretariat for the Deauville Partnership for 2012, a G-8 initiative to coordinate and augment international financial institution (IFI) assistance to Arab countries going through political transition.

Key Institutional Reforms: The AfDB has continued to work on reforms agreed during the sixth General Capital Increase and twelfth replenishment of the African Development Fund (AfDF). To enhance financial management, the Bank adopted a new comprehensive financial model

requiring loan pricing to cover administrative expenses over the medium-term, periodic review of reserve allocations to support long-term capital adequacy, and effective administrative expense management. The AfDB has also recently established a new Operational Risk Management Framework to upgrade risk management functions, and the Bank has made improving the enterprise risk governance a priority for the institution. The United States has encouraged management to designate the risk function as a stand-alone unit with a Head of Risk office reporting to the President, consistent with the best practice at other MDBs.

In terms of its operational work, the Bank formulated an Urban Development Strategy to assist governments on urban economic growth. The Bank is also updating its Private Sector Development Policy to refine the Bank's activities in private sector-led projects.

In 2011 the AfDB Board, with the support of the United States, adopted a new compensation framework. Specific areas of improvement include eliminating a specific salary target as a percentage of World Bank/other MDB salaries, adopting broader measures of market competitiveness, and strengthening the links between performance and compensation.

As part of its decentralization agenda, the AfDB opened four new field offices in fragile states and established two pilot Regional Resource Centers in 2011. The goal of decentralization is to enhance services to clients and improve the quality of the Bank's portfolio by transferring greater decision making authority to field offices. In an effort to communicate better with the non-African shareholders, the Bank also approved the opening of three External Representation Offices in the Americas, Europe, and Asia, which will be launched over the coming years.

### ASIAN DEVELOPMENT BANK

2012 Priorities: The Asian Development Bank (AsDB) is reviewing its corporate results framework for development effectiveness, with an eye toward revising and updating the targets. The revision process will consider management and operational lessons learned from prior years, take stock of emerging good practices, and involve extensive stakeholder consultations.

Major objectives for the United States include: working to ensure that sufficient resources are available for our national security priorities, such as Afghanistan; analyzing issues of capital adequacy and sustainable lending practices for better financial management; and discussing engagement policies for middle-income countries that are at or nearing the graduation threshold.

Bank Performance in 2011: In 2011, the AsDB committed \$11.3 billion in non-concessional resources, and the Asian Development Fund (AsDF), the Bank's concessional arm, committed \$2.7 billion. Total operations – including co-financing, guarantees, and technical assistance – reached \$21.7 billion, the highest level ever for the AsDB. Top recipients of funds, including co-financing, were Vietnam (\$3.6 billion), India (\$3.1 billion), Pakistan (\$2.9 billion), Bangladesh (\$2.2 billion), and China (\$1.6 billion). AsDB operations for lending focused primarily on infrastructure projects, mainly in the energy (\$3.9 billion), transportation (\$3.5 billion), and water supply and sanitation sectors (\$1.2 billion). The AsDB also lent \$1.8 billion for multi-

sector projects, \$1.2 billion for water supply, \$0.84 billion for agriculture projects, and \$0.53 for public sector management.

The AsDB has outlined three strategic priorities as part of its long-term strategic framework (or “Strategy 2020”): inclusive growth, environmentally sustainable growth, and regional cooperation and integration. Inclusive growth refers to promotion of high and sustainable economic growth that benefits everyone, including the poor and vulnerable. In 2011, 43.8 percent of projects supported inclusive growth, 43 percent included environmental sustainability as a theme, and nearly 20 percent of approvals were regional cooperation and integration-related. In addition, the AsDB provided critical support to U.S. foreign policy priorities. For example, Afghanistan received commitments of \$232 million in the past year, all in the form of grants.

Asian Development Fund Replenishment: The AsDF has a four-year replenishment cycle in which fresh resources are contributed to support grants and concessional loans for the region’s poorest countries. In 2011, donors agreed on a replenishment level for the tenth replenishment of the AsDF (AsDF-11) of \$12.4 billion for the four-year period, covering 2013-2016, with \$4.6 billion coming from donors and \$7.8 billion coming from internal AsDF resources and transfers from AsDB net income. Total pledges represented a 10 percent increase over AsDF-10. The U.S. pledge for AsDF-11 was \$359.6 million, a 22 percent decrease relative to AsDF-10.

Like the United States, many donors reduced their pledges from AsDF-10 levels. However, these reductions were more than offset by increased pledges from Japan, which remained the largest AsDF donor and accounted for nearly half of all pledges; Australia, which took over the former U.S. spot as the second largest donor; and the United Kingdom, which remained the fourth largest donor.

In line with the AsDB’s Strategy 2020, the Bank’s key mandates under AsDF-11 will be to reduce poverty in the Asia-Pacific region through inclusive and environmentally sustainable growth and regional cooperation and integration. Donors agreed to give special consideration to fragile and conflict affected situations and gender issues. Donors also agreed to extend the phase-out of exceptional post-conflict assistance to Afghanistan, maintaining the country’s access to assistance levels above its regular AsDF allocation until at least 2018. Finally, Donors agreed to establish a pilot Disaster Response Facility for the AsDF-11 period, allowing member countries to access a fund in case of natural disasters.<sup>13</sup>

Key Institutional Reforms: The AsDB continued to implement reforms negotiated in 2009 as part of its general capital increase, including extended whistleblower and witness protection provisions that reflect the best practices among the MDBs. At U.S. urging, the AsDB revised its Public Communications Policy to increase transparency and accountability. The new policy provides for improved disclosure of the Bank’s policies, procedures, and deliberations, including audited project financial statements. This policy will allow persons affected by projects and other stakeholders to provide meaningful inputs into project design, preparation, processing, and implementation.

---

<sup>13</sup> Documents relating to the replenishment can be found at: <http://www.adb.org/site/adf/replenishments/adf-11>.

The AsDB also revised its Accountability Mechanism Policy, which acts as a forum through which individuals affected by AsDB-supported projects can appeal if they have concerns regarding the Bank's compliance with its operational policies and procedures. The revised policy will provide for a more streamlined process for receiving and reviewing complaints that will result in improved access and ease-of-use for projected-affected persons. The revised policy also includes measures to increase awareness of the Mechanism in developing member countries. Finally, the revised policy provides for increased Board oversight and reduced management influence over compliance review panels.

To strengthen the Bank's financial position, the AsDB introduced maturity-based pricing for its longer-term loans. This initiative is designed to increase the yield on AsDB loans, something the United States has advocated to improve Bank earnings in this low-interest rate environment.

Lastly, the AsDB launched a pilot initiative, the Project Design Facility, as part of its effort to improve development outcomes. This facility will fund loans for project preparation and due diligence costs, which have been typically funded with technical assistance grants. The United States will closely monitor how this facility is used, particularly for high-risk projects with significant environmental or social impacts.

## EUROPEAN BANK FOR RECONSTRUCTION AND DEVELOPMENT

2012 Priorities: A key priority for the United States and the European Bank for Reconstruction and Development (EBRD) is continued progress on geographic expansion to the Middle East and North Africa (MENA) region. The United States is working to secure sufficient support from other shareholders for ratification of the amendments to the EBRD's charter to unlock needed EBRD investments in the new region. Other priorities for the year include the strengthening of the methodology for assessing country eligibility under the political criteria of the EBRD charter's Article 1 and the strengthening of the EBRD's evaluation function.<sup>14</sup>

Bank Performance in 2011: The EBRD continued to provide needed financing in response to the financial crisis in Europe, as its investments in 2011 reached a record \$11.8 billion. The EBRD supported 380 operations in 2011, which was similar to 2010. In line with institutional reform objectives, the EBRD continued to increase the proportion of its investments in the early transition countries, reaching nearly 32 percent of EBRD investment operations in 2011, and in the western Balkans, which accounted for a further 17 percent of 2011 EBRD operations. The EBRD also increased its mobilization of additional resources for investments. The mobilization ratio increased from 1.5 in 2010 to 2.3 in 2011 (i.e., for every dollar invested by the EBRD, the Bank mobilized an additional \$2.30 from other sources).

In 2011, there was substantial progress toward achieving a U.S. priority to support emerging democratic states in the MENA region in their transition to more market-oriented economies. In October 2011, EBRD Governors broadly endorsed an expansion of the Bank's geographic mandate that would allow investment in the MENA region. Tunisia and Jordan became

---

<sup>14</sup> Article 1 states that the EBRD's purpose is to foster the transition to open market-oriented economies in countries committed to and applying principles of multiparty democracy, pluralism, and market economies.

members of the EBRD in December 2011, joining Egypt and Morocco as members from the new region. The EBRD launched technical assistance operations for all four countries, but amendments to its charter are needed before it can make investment operations.

Addressing an important concern of the United States, the EBRD revised its codes of conduct for EBRD staff and the Board of Executive Directors.

## INTER-AMERICAN DEVELOPMENT BANK

2012 Priorities: Key priorities for the Inter-American Development Bank (IDB) include continuing the implementation of policies, strategies, and reforms stemming from commitments in the Ninth General Capital Increase (GCI-9) agreement. The IDB is currently reviewing operational policies to create an up-to-date, comprehensive, and binding set of policies that will be closely tied to all institutional strategies and sector frameworks. The Board of Executive Directors will also continue its work to strengthen the IDB's employee conduct and accountability system. In particular, the Bank is committed to strengthening its whistleblower policy, as was recommended by a May 2011 report by the independent group, Global Compliance Services. The draft revisions to staff rules and regulations on whistleblowers were reviewed by the Board of Directors in 2012.

The IDB has also made 2012 the “year of execution and results,” to improve the quality and efficiency of both the project cycle and management of Bank resources. This includes strengthening the evaluation of results-based budgeting. The IDB is moving forward with key cross-cutting initiatives, including on citizen security, sustainable cities, food security, broadband access, and biodiversity. The IDB will continue to pursue improvements in employing rigorous impact evaluation, increasing oversight (including through the Independent Consultative and Investigative Mechanism), increasing private sector lending, and decentralizing IDB operations to the region. IDB Management is expected to present to the Board of Directors a comprehensive response to the recommendations made by the Independent Advisory Group (IAG) report, which focused on strengthening implementation and mainstreaming sustainability.

Bank Performance in 2011: The IDB committed \$10.9 billion in loans and grants for 167 projects in 2011. Out of the total number of projects, 43 percent targeted infrastructure and environmental sectors. The IDB has also been gaining significant ground on its various GCI-9 lending targets, already surpassing some of its 2015 goals in 2011.

- Lending to small and vulnerable countries: 36 percent (GCI-9 goal: from 27 to 35 percent).
- Lending for poverty reduction and inequity: 49 percent (GCI-9 goal: from 40 to 50 percent).
- Lending for climate change: 33 percent (GCI-9 goal: from 5 to 25 percent).
- Lending for regional cooperation and integration: 12 percent (GCI-9 goal: from 10 to 15 percent).

The IDB has been one of the most committed partners in leading reconstruction efforts in Haiti after the devastating 2010 earthquake. The Bank approved \$240 million in new grants and disbursed \$175 million last year for critical projects in priority sectors.

Key Institutional Reforms: The IDB made significant progress in implementing its GCI-9 commitments, and is on track to fulfill all commitments by the end of 2012. Progress will be formally evaluated at the Mid Term Review in 2013. In response to the GCI-9 reform agenda, the IDB developed a methodology for macroeconomic sustainability analysis to minimize the risk of lending into an unsustainable economic climate. In the area of governance, the Bank made significant progress in reforming its ethics, conduct, and grievance systems.

To improve results measurement, in 2011 the Board of Directors approved a new development effectiveness matrix for all project loans, which will greatly improve the Bank's ability to measure the success of its programs. In addition, under the Bank's guidelines, only projects that meet a quantitative minimum development effectiveness threshold can be brought forward to the Board of Executive Directors.

In 2011, the IDB approved the Flexible Financing Facility (FFF) for new Ordinary Capital Sovereign Guaranteed loans. This is part of the Bank's commitment to providing flexible market-based financial products to borrowers to enhance their asset-liability management strategies. The FFF allows borrowers to manage currency and interest rate exposures, customize loan repayment terms, and manage loans under discontinued financial products, among other options.

The IDB also approved an integrated Private Sector Development Strategy (PSDS) and the NSG (non-sovereign guaranteed) Business Plan for 2012-2015. The PSDS emphasizes synergies to be gained from integrating action between the public and private sector windows of the bank. The NSG Business Plan promotes cooperation and coordination across the various IDB private sector windows and NSG activities, as well as joint financing efforts. Future areas for collaboration may include cross-marketing, knowledge dissemination, and staff mobility across IDB entities.

## INTERNATIONAL FUND FOR AGRICULTURE AND DEVELOPMENT

2012 Priorities: The International Fund for Agricultural Development (IFAD) has an ambitious agenda for 2012 that addresses many key U.S. priorities, including mainstreaming environmental and gender initiatives across operations. IFAD will adopt a comprehensive policy on gender equality putting women's empowerment at the heart of the organization's strategic plans for reducing rural poverty. In addition, IFAD will place a special emphasis on mainstreaming environmental services in its operations. IFAD will also develop and implement guidelines relating to the levels of counterpart funding from recipient countries to promote greater country ownership and ensure IFAD's resources leverage domestic funds to achieve a wider impact on rural poverty.

Fund Performance in 2011: In 2011, IFAD's approvals of loans and grants grew substantially reaching a record level of \$997.6 million, an increase of roughly 18 percent over 2010. IFAD continued to successfully attract large amounts of co-financing resources, leveraging a total of

\$832.4 million in domestic financing and \$412.2 in external financing in 2011. At the end of 2011, IFAD was managing a total portfolio of 240 active projects in 93 countries representing a total investment of \$4.6 billion. Almost half of IFAD approvals for 2011 were in Sub-Saharan Africa.

IFAD Replenishment and Key Institutional Reforms: In December 2011, IFAD member countries finalized consultations on IFAD's ninth replenishment (IFAD-9) and pledged contributions totaling \$1.5 billion for the three-year period (2013-2015). The United States maintained its funding at current levels with a pledge of \$90 million. During the IFAD-9 replenishment negotiations, the United States successfully pressed for reforms in financial and human resources management, as well as a greater focus on operational effectiveness and results. In particular, IFAD agreed to reform its human resource policy to more effectively link pay to performance and develop stronger performance assessment mechanisms. In addition, IFAD adopted a new Investment Policy, bringing its financial management up to MDB standards. A special emphasis was also placed on improving the efficiency of the organization's business model, project sustainability, and results measurement. This will be achieved by enhancing routine monitoring and evaluation functions, strengthening partnerships with the private sector, and placing a greater focus on the local policy environment to increase dialogue with host governments on agriculture policy reform. Strategic operational priorities for IFAD-9 include access to land and water, investment in agricultural infrastructure, rural governance, and access to rural financial services. Documents relating to the replenishment can be found at <http://www.ifad.org/gbdocs/repl.htm>.

## NORTH AMERICAN DEVELOPMENT BANK

2012 Priorities: The North American Development Bank (NADB) is raising more financing in the capital markets through bond issuances in 2012. As additional funding will expand the NADB's lending activities, the United States will remain focused on improving the development effectiveness of NADB and its sister organization, the Border Environmental Coordination Commission (BECC), advocating for strong financial management practices, and monitoring NADB and BECC's compliance with their institutional policies and following up on their development plans. The United States will also reinforce its view that NADB's projects continue to focus on improving environmental infrastructure, particularly for low-income communities.

Bank Performance in 2011: In 2011, the Board of the NADB approved financing and certification for 14 new projects, representing \$295.5 million in new loans and grants. The new projects included investments in basic water and wastewater services, street paving, and first time support to solar energy and sustainable urban infrastructure. Financing for six of these new projects was contracted by the end of 2011 for a total of \$113.8 million. Disbursements also reached \$80.4 million, which comprised 70 percent of the contracted funds in 2011. By the end of 2011, the NADB's cumulative portfolio reached \$1.3 billion (including both loans and grants), supporting 152 projects with an estimated total cost of \$3.28 billion.

NADB also expanded its grant financing program through the establishment of the Community Assistance Program (CAP) in November 2011. The CAP is funded through NADB's retained

earnings and will provide low-income communities grant financing for up to \$500,000, with priority given to drinking water, wastewater, and solid waste infrastructure projects.

Finally, the U.S. and Mexican governments agreed to consider additional sectors for NADB financing that would “minimize future negative environmental impacts on the border,” including projects in the public transportation infrastructure, energy, municipal planning and housing sectors. This means that the NADB and the BECC may be able to support a wider array of environmental infrastructure projects, while also maintaining their focus on traditional infrastructure projects.

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

The U.S. Department of the Treasury presents this report consistent with 22 U.S.C. § 262r-6(b)(2). That section directs the Secretary of the Treasury to report to Congress on how International Development Association (IDA) financed projects contribute to the eventual graduation of a representative sample of countries from reliance on financing on concessionary terms and international development assistance.

IDA provides highly concessional funds to the poorest countries, and ideally supports growth and development that ultimately enables them to graduate from IDA. The process of graduation from IDA is normally triggered when a country exceeds the operational per capita income guideline (currently \$1,175) and is deemed to be creditworthy enough to receive IBRD loans. Some countries, such as China, have graduated from IDA based on their improved creditworthiness and access to commercial capital, even though per capita income remained below the operational guideline. The graduation process, in most cases, lasts for years and involves a phase-out of IDA funding along with a phase-in of IBRD lending. Before graduation, there is usually an intermediate stage where countries are designated as IBRD/IDA “blend” countries. There are currently 16 IDA-blend countries: Armenia, Bolivia, Bosnia-Herzegovina, Cape Verde, Dominica, Georgia, Grenada, India, Mongolia, Pakistan, Papua New Guinea, Sri Lanka, St. Lucia, St. Vincent, Uzbekistan, Vietnam, and Zimbabwe.

Thirty-six countries have graduated from IDA. Eleven of these countries, however, have subsequently become eligible once again for IDA funding. Most recently, Azerbaijan graduated in 2011, Albania and Indonesia graduated in 2008, and Montenegro and Serbia graduated in 2007. Indonesia had graduated in 1980 but became IDA-eligible again in 1998 after the Asian financial crisis.

Graduation from IDA will be a topic of discussion at the IDA-16 Mid Term Review. A key element of the discussion will be how to facilitate a smooth transition of borrowers graduating from IDA to IBRD without large changes in the volume of assistance, an issue of particular relevance for India, currently one of IDA’s largest borrowers.