IMPLEMENTATION OF
CERTAIN LEGISLATIVE PROVISIONS
RELATING TO THE
INTERNATIONAL MONETARY FUND

A Report to Congress

in accordance with

Section 1503 of the
International Financial Institutions Act,

Section 801(c)(1)(B) of the
Foreign Operations, Export Financing, and Related Programs
Appropriations Act, 2001, as required by Section 1705(a) of the International Financial
Institutions Act

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(a) of the International Financial Institutions Act (“IFI Act”), 22 U.S.C. § 262o-2(a).\(^1\) This report also covers progress on the 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, 22 U.S.C. § 262r-4(a). 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 also covers new IMF lending arrangements per section 605(d) of the Foreign Operations, Export Financing, and Related Programs Appropriations Act, 1999.\(^3\) Earlier reports pursuant to 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, 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 financial 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 many countries and globally. The IMF continues to address remaining vulnerabilities in the global economy – for instance, by providing co-financing, with the European Union, for distressed eurozone members this year. At the most recent

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\(^1\) This provision was enacted in section 610(a) of the Foreign Operations, Export Financing, and Related Programs Appropriations Act, 1999 (Public Law 105-277, division A, § 101(d), title VI, § 610(a). This provision subsequently was amended by Section 7703(a) of the 9/11 Commission Implementation Act of 2004, contained in the Intelligence Reform and Terrorism Prevention Act of 2004 (Public Law 108-458, title VII, § 7703(a)).

\(^2\) Section 801(c)(1)(B) was enacted in Public Law 106-429, title VIII, § 801(c)(1)(B). Section 1705(a) was amended by Section 803(c) of the Foreign Operations, Export Financing, and Related Programs Appropriations Act, 2001 (Public Law 106-429, title VIII, § 803(c)).

\(^3\) Public Law 105-277, title VI, § 605(d).
G-20 leaders’ summit in Seoul, South Korea, in November 2010, members agreed to an historic reform of IMF governance. The United States also joined its G-20 partners in calling for the IMF to take a more proactive role in addressing global economic imbalances.
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. Department of the Treasury 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. Treasury continues to advocate for these further improvements, most recently at the G-20 Summit in Seoul, South Korea, in November 2010, where Leaders jointly called for enhanced surveillance of exchange rate policies.

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. The Framework for Strong, Sustainable, and Balanced Growth agreed to at the Pittsburgh G-20 Summit calls on the IMF to 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, including exchange rate policies, 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”). Leaders at the G-20 Summit in South Korea reiterated the need for the IMF to deepen its work in this area. The first such assessment is to be conducted in 2011.

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

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In the March 2010 Article IV review for Mexico, the USED commended the authorities’ commitment to a flexible exchange rate and transparent, rules-based intervention, highlighting the importance of these policies in absorbing shocks during the crisis and buttressing the credibility of the inflation-targeting regime.

In a January 25, 2010, Board Statement on India’s Article IV review, the USED strongly supported India’s recent policy of maintaining a flexible market-determined exchange rate. The USED emphasized that surveillance of exchange rates remains at the core of the Fund’s responsibilities in the international monetary system and that bilateral surveillance should include candid and transparent exchange rate assessments.

In a February 24, 2010, statement, the USED emphasized that Burma’s dual exchange rate system distorts economic activity, benefits few at the expense of many and clouds economic analysis. The USED noted the positive step that Burma had taken by committing under the ASEAN Economic Community Blueprint to accept Article VIII by 2011, and urged the authorities to provide a clear timetable for the elimination of existing exchange restrictions and multiple currency practices.

In an August 2010 statement, the USED noted that the IMF’s Article IV review of South Korea fell short in the discussion of Korea’s exchange rate policy and the adequacy of Korea’s foreign exchange reserves. The USED criticized Fund staff for not including analysis of Korea’s exchange rate policy over the past year, noting that Korea had gone through a period involving substantial use of reserves to slow depreciation, followed by a period of intervention in which reserves have been rebuilt.

(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 third and fourth reviews of Costa Rica’s Stand-By Arrangement in May 2010, the USED encouraged authorities to take measures to strengthen the independence of the central bank, which in concert with greater moves towards exchange rate flexibility would enable the central bank to focus more effectively and credibly on its inflation target, and free more space for discretionary monetary policy.
• In the November 2009 Article IV Review of Uruguay, the USED supported the staff’s recommendation to the central bank to subordinate the exchange rate objectives to its inflation objectives, noting that tensions between these goals were likely contributors to persistent inflationary pressure and that enhancing the central bank’s autonomy could be important in addressing this issue.

• In the July 2010 Board Statement on South Africa’s Article IV Review, the USED urged authorities to develop appropriate metrics for assessing reserve adequacy and to focus monetary policy on the inflation target given that persistently high inflation expectations highlight the need to further strengthen central bank credibility.

(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 an August 25 Board Statement on Korea’s Article IV review, the USED encouraged authorities to expedite restructuring of troubled small- and medium-sized enterprises (“SMEs”) and to scale back SME loan guarantees, which would help to increase competition and dynamism in the non-tradables sector that is largely dominated by SMEs.

(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:

• In a January 2010 Board Statement on Afghanistan’s achieving of HIPC completion point, the USED noted our disappointment with progress in restructuring and privatizing public enterprises and urged the authorities to reform state-owned enterprises and reinvigorate the country’s stalled privatization agenda.

• In its February 2010 statement for Suriname’s 2009 Article IV Review, the USED expressed concern over IMF staff’s encouragement of greater public sector involvement in the extractive industry sector, noting that such recommendations do not fall within the IMF’s core mandate and are at odds with recommendations for greater private sector involvement in other developing countries with extractive industries.
In addition to abstaining on the Board review of Belarus’s March 2010 review of its Stand By Arrangement due to policy concerns with the program and consistent with legislative mandates that require the United States to oppose (abstain or vote No on) any financial assistance to the Government of Belarus except for loans or assistance that serve humanitarian needs, the USED highlighted that the government’s continued commitment to directed credit and its aversion to privatizing the two largest banks raised questions about the depth of commitment to real financial sector reform.

(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 August 2010 Article IV review for Indonesia, the USED urged the authorities to focus on crucial aspects of the business environment that need to be improved – anti-corruption, infrastructure, labor law/regulation, judicial reform, and contract enforcement – to sustain direct investment momentum.

• In the March 2010 Article IV review for Egypt, the USED highlighted the need to continue strengthening Egypt’s regulatory framework, including competition-enhancing reforms such as enabling additional foreign participation in the banking sector to expand the availability of finance.

• In a January 2010 Board statement for the Marshall Islands’ Article IV review, the USED noted that structural reforms to strengthen private sector development should be a high priority.

(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. The Fund’s policy advice and its focus on macroeconomic stability, however, 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 spending slightly more, on average, 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 July 2010, such spending, on average, is about five times the amount of debt-service payments. For HIPC states, pursuant to a legislative mandate, Treasury carefully evaluates whether the IMF program allows for an increase in health and education expenditures. Also, the USED’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 July 2010 Extended Credit Facility request from Yemen, the USED urged Yemeni authorities to clearly communicate the connection between additional resources for enhanced social spending and fiscal adjustment measures to increase government revenue and reduce fuel subsidies.

- In the January 2010 Board Statement on the Republic of Congo’s Article IV Review, the USED called for authorities to place a high priority on further increasing the proportion of expenditures for priority areas, such as basic education, health, and agriculture.

- In the May 2010 Board Statement on Angola’s Article IV Review, the USED urged authorities to strengthen expenditure administration, including performance vis-à-vis the indicative floor on social spending.

**(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”), as well as for some other African and Western Hemisphere groupings.

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(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. FSAPs 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.

The U.S. agreed to conduct an FSAP with the IMF in 2006. After allowing for some time for U.S. regulators to continue their work on implementation of Basel II capital standards, the IMF’s FSAP mission team began its work on the U.S. FSAP in 2009 and issued its report on July 30, 2010. In the IMF’s Financial System Stability Assessment (FSSA), the IMF staff provided the key findings of their assessment of the U.S. Treasury requested that the IMF publish all documents related to the U.S. FSAP that can be published under the IMF’s rules. Accordingly, in addition to the FSSA, the IMF published seven Reports on Standards and Codes (ROSCs); seven Detailed Assessment Reports (DARs) on banking, securities, insurance, and clearing and settlement systems; and eight technical notes on stress testing, consolidated supervision, OTC derivatives, crisis management, liquidity risk management, oversight of payments, Basel II implementation, and anti-money laundering and combating the financing of terrorism.

FSAPs and ROSCs also play an important role in the Financial Stability Board’s (FSB) newly-established peer review surveillance process to assess countries’ progress in strengthening their financial systems. The FSB, which was formed in 2009, uses FSAPs and ROSCs as the basis for its assessments.

In September 2010, the USED supported the adoption of IMF management’s proposal to make financial stability assessments under the FSAP a regular and mandatory part of bilateral surveillance under Article IV of the Fund’s Articles of Agreement for 25 jurisdictions with systemically important financial sectors, including the United States. This decision will increase the coverage of financial stability issues in the Fund’s bilateral surveillance of its members with the largest and most interconnected financial sectors, while also preserving access to the FSAP on a voluntary basis for the rest of the membership. These financial stability assessments will take place on a five-year cycle.

In the context of a December 2009 Review of the Fund’s Transparency Policy, the USED noted the importance of enhanced transparency for improving the effectiveness of Fund advice, the quality of surveillance, and the Fund’s legitimacy. The USED expressed strong support for a proposal to shift to the publication of ROSCs on a non-objection basis, and urged members not presently publishing their staff reports to consider the benefits of greater transparency. The United States strongly supports this increased transparency and,
as a demonstration of our commitment, became the first country to request the early publication of its DARS well before the Board discussion.

The IMF also conducts financial sector surveillance through a semi-annual Early Warning Exercise (EWE) and Global Financial Stability Report (GFSR). The EWE is prepared jointly by the IMF and the FSB and the GFSR is produced by the IMF’s Monetary and Capital Markets Division. In November 2008, G-20 Leaders called on the IMF and FSB to undertake EWEs. The EWE is intended to draw on consultations with policymakers and outside experts and Article IV and FSAP findings. It also reflects the output of the Fund’s Vulnerability Exercise for Emerging Markets and a new Vulnerability Exercise for Advanced Countries.

An EWE pilot was completed in April 2009 for the IMF/World Bank Spring meetings and was officially launched at the IMF/World Bank Annual Meetings in Istanbul in October 2009. As the crisis recedes, the EWE is becoming more forward-looking and increasingly highlighting possible costs of failures to address identified vulnerabilities as well as areas for policy coordination.

The Standards and Codes Initiative, which was launched in 1999 to strengthen the international financial architecture, is currently undergoing a regular five-year review by the IMF and World Bank. The current review is paying particular attention to the need to adapt the Initiative in light of the recent crisis. The USED has welcomed the IMF’s active participation in the FSB process to reassess the existing set of standards and has expressed support for the proposals put forth by the Standing Committee on Standards Implementation (SCSI) Working Group to the FSB Plenary regarding the key standards. The review is expected to be completed in early 2011.

Following the G-20 Finance Ministerial in April of 2009, the FSB and the IMF formed a working group to explore information gaps and provide appropriate proposals for strengthening data collection, and report back to the Finance Ministers and Central Bank Governors. In October 2009, the Working Group submitted this report to the Finance Ministers and Central Bank Governors, which included a list of recommendations to fill existing information gaps. The Working Group continues to provide regular progress updates.

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

- As a part of the July 2010 Article IV review of Turkey, the USED highlighted the importance of phasing out previously relaxed provisioning and loan classification standards and encouraged the Turkish authorities to consider an FSAP update.

- In the July 2010 Article IV Review of Brazil, the USED noted that the rapid growth in some Brazilian credit markets called for careful monitoring of credit risks, and encouraged authorities to enhance coordination between bank and financial fund supervisory authorities to monitor carefully and limit potential balance sheet vulnerabilities associated with strong capital inflows.
• In a July 2 Board Statement on Japan’s Article IV review, the USED noted the importance of moving toward higher and better quality capital requirements for Japanese banks, considering the vulnerability of bank capital to equity prices.

• In a July 2010 Board Statement on Saudi Arabia’s Article IV, the USED noted the importance of disclosure and credit review processes among Saudi banks and conglomerates, as well as the risks to allowing the overexposure of Saudi banks to opaque family conglomerates.

• In a November 18, 2009 statement, the USED commended the Cambodian authorities for acting on several recommendations for improved banking sector regulation and supervision, including prioritizing onsite inspections and introducing new loan classification and provisioning standards.

(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 international financial institutions (“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 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 a July 2010 Board Statement on Saudi Arabia’s Article IV, the USED emphasized that recent defaults should be handled transparently and equitably.

(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 coordinated closely with other international financial institutions and relevant country regulatory authorities. In 2009, for example, in the context of Fund lending programs, the IMF secured voluntary commitments from 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 such, the IMF recently decided to make financial stability assessment under the FSAP a regular and mandatory part of Article IV consultations for members with systemically important financial sectors. In November 2010, the United States, along with other G-20 Leaders, called for further progress modernizing the IMF’s surveillance mandate.

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 balanced trajectories for the global economy, to be undertaken in 2011. 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 raises access limits, streamlines conditionality, and simplifies cost and maturity structures, thereby making it easier for the
strongest-performing member countries to access resources. In spring 2009, the IMF board approved FCLs for Mexico, Poland, and Colombia. In August 2010, the FCL was enhanced to provide greater potential resources to the same caliber of highest-performing member countries. At the same time, the IMF also created the Precautionary Credit Line ("PCL"), a similar instrument for strongly-performing countries with some vulnerabilities, which entails more limited access than the FCL and some conditionality. Combined with responsive policy actions by country authorities, the FCL and PCL instruments can help to support a reduction in risk perception and contribute to stabilizing financial market conditions.

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

- In a July 26 Board Statement on China’s 2010 Article IV review, the USED noted that much of the reduction in China’s current account surplus was due to cyclical factors, and that full implementation of the structural reform agenda outlined in the Article IV staff report, including greater exchange rate flexibility, was necessary for China to move towards greater domestic demand-led growth.

- In the April 2010 statement on the review of Iceland’s Stand-By Arrangement, the USED noted that, in addition to the difficult fiscal consolidation needed to stabilize public debt, there are also contingent claims on the Icelandic state that need to be addressed, including possible recapitalization of the Central Bank if reserves are depleted once capital controls are lifted, and covering remaining commercial bank liabilities if asset recovery proves incomplete. The USED requested careful monitoring of all these contingent risks as the program moves forward. The USED also welcomed IMF technical assistance for building debt-management capacity.

(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 85 per cent of IMF technical assistance goes to low- or 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 has initiated a pooling of donor resources in multi-donor trust funds that will supplement the Fund’s own assistance. The funding model operates by region and topic, and will include a focus on providing technical assistance on financial sector stability and development.

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

- In a January 25, 2010, Board Statement on India’s Article IV review, the USED encouraged Indian authorities to agree to a comprehensive review and update of India’s financial sector through the Financial Sector Assessment Program (FSAP).

- In the December 2009 review of Hungary’s Stand-By Arrangement, the USED noted the progress since the prior review, including submission by the authorities of proposed legislation to increase the stature of the supervisory authority and the progress made in strengthening on-site bank examinations. The increases in provisioning for non-performing loans that followed some of those examinations were noted as a clear indication that enhanced inspections are paying off. The USED also welcomed pending regulations that would discourage foreign currency-denominated domestic lending as a critical element in strengthening the resiliency of the financial system.

- In an August 25 Board Statement on Korea’s Article IV review, the USED noted that the best protection against sudden changes in international capital flows is a sound financial regulatory framework and a flexible exchange rate that avoids generating expectations of one-way bets and that allows necessary adjustments to occur.

(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. More recently, IMF members agreed
to a doubling of quotas (with a corresponding rollback in the NAB, preserving share values).

The United States, in cooperation with the IMF and the broader international financial community, promoted a strengthened framework for crisis resolution by overhauling the IMF’s non-concessional lending framework in early 2009. The United States supported the creation and enhancement of the FCL and the creation of the PCL in mid-2010. These facilities 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, the IMF’s lending commitments have increased by over $210 billion since August 2008.

In 2009, the IMF approved a package of extraordinary measures to sharply increase the resources available to low-income countries (LICs), more than doubling the Fund’s medium-term concessional lending capacity. These reforms allowed the Fund to dramatically expand its lending capacity during the crisis, with new Fund commitments for LICs totaling $5 billion, or four times the historical average, since the beginning of 2009. In addition, in 2010, the IMF created the Post-Catastrophe Debt Relief (PCDR) Trust to provide debt relief for very poor countries hit by the most catastrophic of natural disasters. The PCDR financed the elimination of Haiti’s entire debt stock to the IMF (about $268 million) following the 2010 earthquake.

Some examples of where the USED has provided support in this area are:

- In the July 2010 statement for the euro area Article IV, the USED urged that remaining weaknesses in the euro area financial sector should be decisively addressed to avoid a drag on growth, and welcomed European bank stress test exercises then underway, encouraging maximum transparency in the publication of results. The USED also highlighted that adequate and credible capital backstops must be in place. In terms of achieving fiscal sustainability, the USED highlighted the role to be played by a rebalancing of demand within the euro area, which would assist economic adjustment in the countries that must undergo a necessary retrenchment in public and private consumption.

- In the September 2010 statement for the Global Financial Stability Report, the USED encouraged the European authorities to make the European Financial Stability Facility fully operational and to be prepared to undertake quick and coordinated action should demand for these backstops emerge. To reap the benefits of these steps, the USED noted that it would be critical that those countries most affected by market turmoil follow through with strong policy measures to restore fiscal sustainability, enact growth-enhancing structural reforms, and address financial sector weaknesses.

- The United States supported the IMF’s significant financial assistance and efforts at crisis resolution in Europe in 2010. For example, in the May 2010 statement supporting the proposed Stand-By Arrangement for Greece, the USED noted that
economic vulnerabilities in Greece had become reality as market confidence wavered in the wake of continued fiscal deficits and enduring structural weaknesses. In particular, the USED highlighted the painful fiscal adjustment and ambitious structural reforms, within the confines of the euro, needed in order for Greece to return to a sustainable path. The USED welcomed the authorities’ commitment to redouble efforts and implement the measures needed, as well as the government’s resolve to carry out the reform program.

- When Afghanistan’s IMF program lapsed in September 2010 due to the Kabul Bank crisis, and the IMF was planning to re-engage the Afghan authorities on a new IMF program, the USED pressed for strong prior actions to stabilize the Afghan financial sector, including agreement on bank audits, resolution of Kabul Bank to address lingering corruption issues, and measures to significantly strengthen banking sector supervision.

- In the March 2010 Article IV Review for Mexico, the USED supported renewal of Mexico’s Flexible Credit Line (FCL) arrangement with the IMF at the same access level, pointing to the government’s track record of prudent policy and commitment to fiscal consolidation and tax reform in the 2010 budget.

(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 the 2010 Board statement for Iraq’s Stand-By Arrangement, the USED urged Iraqi 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 a September 2010 review of Mongolia’s Stand-by Arrangement, the USED noted the challenges that Mongolia’s growing natural resource revenues will bring to economic governance, and urged the authorities to work with civil society and the international financial community to build a broad consensus for sound economic policy.

In the July 2010 Article IV Review for Nicaragua, the USED supported the decision by IMF staff to suspend review of the country’s ECF arrangement due to an unexpected public salary bonus funded by off-budget donor support, agreeing that such practices raised governance and transparency concerns.

In the June 2010 Board Statement on Chad’s Article IV Review, the USED called for more effective budget controls, increased budget transparency, and progress on public financial and expenditure management to ensure that resources are targeted and consistent with debt sustainability and poverty objectives.

(7) Channeling public funds away from unproductive purposes, including large “showcase” 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 Code 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-rich (oil-gas-mining) countries. The Guide is being used increasingly in diagnostic work in extractive industry intense economies. The IMF also has 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, the Kyrgyz Republic, and Namibia.

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

• In the third review of Guatemala’s Stand-By Arrangement in June 2010, the USED called for IMF staff to be more detailed in its case for higher government expenditures and to address more specifically if increased social spending was likely to be well-targeted.
• In the June 2010 Board Statement on Ghana’s Article IV Review, the USED urged authorities to move forward prudently in their budget planning and implementation, given that in the near-term oil revenues will not produce a windfall. The USED also called for completion of EITI validation to enable planning for oil revenues.

• In the 2010 Board statement following the first review of Iraq’s Stand-By Arrangement, the USED called on Iraq to prepare its 2011 budget with conservative assumptions and ensure its consistency with a sustainable public sector debt trajectory. The USED also urged authorities to move towards establishing a Single Treasury Account to enhance fiscal transparency and the efficiency of government spending.

• In a November 2009 statement, the USED endorsed recommendations that Cambodia subscribe to the Extractive Industries Transparency Initiative.

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

The United States has supported flexibility in Fund programs (and, more broadly, policy prescriptions), 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.

• In the January 2010 review of Haiti’s Extended Credit Line (ECL), the USED stressed the importance of quickly adjusting policy prescriptions and performance criteria to assist Haiti in its recovery from the January 2010 earthquake, urging expeditious debt relief by bilateral creditors, concessional financial terms from multilateral institutions for reconstruction projects, and use of Fund resources to bolster reserves.

• In a July 2 Board Statement on Japan’s Article IV review, the USED called upon authorities to increase productivity in the non-tradables sector and strengthen domestic demand growth, critical for reducing Japan’s over-reliance on external demand as well as for rebalancing global demand for more sustainable and balanced global growth.

• In an October 27 Board Statement on Australia’s Article IV review, the USED called for a counter-cyclical fiscal policy framework that would strengthen Australia’s fiscal position over the medium term and better position the public sector to deal with the fiscal costs of aging and rising health care expenditures.

(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 December 2009.8

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 and a joint IMF-ILO conference attended by the IMF Managing Director in September 2010 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

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 itself does not 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 following case:

- In a July 2010 Board Statement on Saudi Arabia’s Article IV, the USED emphasized that fiscal sustainability will be difficult to achieve without reforming energy subsidies that drag on fiscal balances, distort the Saudi economy, and are a major source of energy inefficiency. The USED encouraged the authorities to elaborate on more concrete plans to reform the country’s energy subsidy regime.

(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

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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 generally will be published as a pre-condition to the Board’s approval of such an arrangement.9 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 93 percent in 2009. Moreover, Public Information Notices were produced following 98 percent of Article IV discussions in 2009, up from 82 percent the previous year, and all reports on current IMF-supported programs were published. The Board completed its latest review of IMF transparency in December 2009. The review suggested measures to increase the amount and timeliness of publications, protect the integrity of IMF documents, and enhance the accountability and legitimacy of the IMF. The IMF’s next transparency review is expected to take place in 2012.10

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 percent of all members in 2005 to 88 percent in 2009.

- In the January 2010 Board Statement on the Republic of Congo’s Article IV Review, the USED called for immediate fiscal support for anti-corruption legislation to improve transparency surrounding oil revenues and expenditure.
- In a January 2010 Board statement for Fiji’s Article IV review, the USED called for the authorities to focus on better targeting and increased transparency in public expenditures.

(13) 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 IMF Interactions with Member Countries (January 2010);11 IMF Involvement in International Trade Policy Issues (June 2009);12 Governance of the IMF: An Evaluation (May 2008);13 Structural Conditionality in IMF-Supported Programs (January 2008).14

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9 “Exceptional access” refers to financing arrangements in amounts that exceed the Fund’s normal limits.

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

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, Treasury 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 September 2010 Article IV Review for Nicaragua, the USED expressed concern regarding the success of the local “no payment” protest movement in unilaterally reducing microfinancing credit terms below market rates, which it said could jeopardize future provision of financing to small businesses and entrepreneurs.

- In the June 2010 Board Statement on Benin’s Article IV Review, the USED voiced support for further privatization of Benin’s banking sector to promote investment and the reform of regulations governing licensing for micro-finance organizations.

(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 and countering the financing of terrorism (“AML/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 to identify shortfalls in their AML/CFT regimes and implement reforms. As of September 2010, the IMF had conducted 46 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. In late 2009, the IMF established a multi-donor technical assistance trust fund to finance further TA and research activities in the area of AML/CFT. In coordination with the establishment of the multi-donor fund on AML/CFT, the IMF is now opening regional technical assistance centers in Latin America, Central Asia, and Southern and Western Africa to strengthen its delivery of assistance to recipient countries.

Treasury and the USED 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 the January 2010 Article IV review for Bolivia, the USED encouraged the authorities to address deficiencies in Bolivia’s AML/CFT regime identified by the FATF, including enacting legislation that would criminalize terrorist financing and allow for the blocking of terrorist assets.

- In the February 2010 Article IV review for Iraq, USED encouraged Iraq to work to pass and implement a draft AML/CFT law that seeks to correct deficiencies in the current legal framework, and to focus efforts to develop a financial intelligence unit.

- In a January 25, 2010, Board Statement on India’s Article IV review, the USED recognized India’s efforts to fight money laundering and the financing of terrorism, noted that India was undergoing a joint FATF/Asia Pacific Group (“APG”) Mutual Evaluation of its anti-money laundering/combating financing of terrorism regime, and requested an update on the conclusion of the Mutual Evaluation process and next steps.

- In the July 2010 Board Statement on Mali’s Article IV Review, the USED supported Mali’s efforts to strength its AML/CFT regime, including the criminalization of terrorist financing, and urged authorities to bring customer due diligence requirements into compliance with international standards.

- In a February 24, 2010, statement, the USED recognized recent steps taken by the Burmese authorities to curb money laundering and the financing of terrorism, but noted that the APG has assessed Burma as deficient in nearly all of the FATF’s 49 Recommendations. The USED urged the authorities to strengthen Burma’s AML/CFT framework in line with the recommendations of the APG in order to safeguard the international financial system from illicit threats.

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 September 2010, 192 Safeguard Assessments had been completed.

(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 Board discussion of the July 2010 Extended Credit Facility request from Yemen, the USED observed that, given the significant risks to program implementation, staggering the disbursements into even tranches strengthens the incentives to maintain reform momentum throughout the program.

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

The IMF has advocated consistently 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. The Fund also has a key responsibility in dealing with the revenue implications of trade liberalization, such as

sequencing domestic tax reforms with the trade liberalization process. During the recent economic downturn, the IMF consistently advised countries that protectionism is not a path to economic recovery.

The IMF has developed an implementation plan for international trade policy issues that calls for reviews of Fund work on trade policy every five years, beginning in 2014. The plan deemphasizes trade policy as an element of program conditionality but still emphasizes trade liberalization where necessary to achieve the macroeconomic objectives of a Fund-supported program, as well as the need to avoid trade-restricting measures. The plan also calls for more frequent coverage of cross-cutting trade policy issues in the Fund’s multilateral and regional surveillance vehicles (such as the World Economic Outlook and the Regional Economic Outlooks) and closer cooperation with the WTO and World Bank on trade.

- In the August 2010 Article IV review for Indonesia, the USED encouraged Indonesia to continue to maintain a commitment to open capital flows, which have facilitated growth and innovation.

(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, the 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 Poverty Reduction and Growth Trust (“PRGT”) programs. The United States urges those countries without a clear balance of payments need to opt for a PSI, in which case they retain the option of seeking SCF financing in the event of sudden adverse developments.

- In a June 2010 Board statement for the Solomon Islands’ request for a Stand-By Credit Facility (SCF), the USED noted that this was an example of the potential demand among the Fund’s lower-income members for shorter and more focused Fund engagement, as is the norm with the IMF’s non-concessional lending.

(VI) **Graduation from receiving financing on concessional 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 PRGT. 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 2009 per capita GNI level of $1,165. A member will graduate and be removed from the PRGT-eligibility list if (1) its annual per capita GNI has been above the IDA cutoff point for the past five years, with an increasing trend; and/or (2) the member has the ability to durably and substantially access international financial markets and has a per capita GNI above 80 percent of the IDA cutoff, with GNI per capita on an increasing trend for the past five years; and (3) faces low risk of a sharp decline in income or market access and limited debt vulnerabilities, as determined by the Fund’s quantitative analysis. While there was 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(a) of the International Financial Institutions Act, as amended
(originally passed as Section 610(a) 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, eliminating 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.
(5) 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.

(6) 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.

(7) 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.

(8) 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.
Section 801(c)(1)(B)
Foreign Operations, Export Financing, and Related Programs Appropriations Act, 2001

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.
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.

Section 601.

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(4) Policies providing that, in circumstances where a country is experiencing balance of payments difficulties due to a large short-term financing need resulting from a sudden and disruptive loss of market confidence and in order to provide an incentive for early repayment and encourage private market financing, loans made from the Fund’s general resources after the date of the enactment of this section are—

(A) made available at an interest rate that reflects an adjustment for risk that is not less than 300 basis points in excess of the average of the market-based short term cost of financing of its largest members; and

(B) repaid within 1 to 21/2 years from each disbursement.
## ANNEX 1

Report to Congress on International Monetary Fund Lending

October 1, 2009 – December 31, 2009

<table>
<thead>
<tr>
<th>Board Approval Date</th>
<th>Country</th>
<th>Amount</th>
<th>Type*</th>
<th>U.S. Position</th>
</tr>
</thead>
<tbody>
<tr>
<td>11/09/09</td>
<td>Dominican Republic</td>
<td>SDR 1.0945 billion ($1.7 billion)</td>
<td>SBA</td>
<td>Support</td>
</tr>
<tr>
<td>11/23/09</td>
<td>Angola</td>
<td>SDR 858.9 million ($1.4 billion)</td>
<td>SBA</td>
<td>Abstain</td>
</tr>
<tr>
<td>12/04/09</td>
<td>Maldives</td>
<td>SDR 49.2 million ($79.3 million)</td>
<td>SBA</td>
<td>Support</td>
</tr>
<tr>
<td></td>
<td></td>
<td>SDR 8.2 million ($13.2 million)</td>
<td>ESF-HAC</td>
<td></td>
</tr>
<tr>
<td>12/07/09</td>
<td>Samoa</td>
<td>SDR 5.8 million ($9.3 million)</td>
<td>ESF-RAC</td>
<td>Support</td>
</tr>
<tr>
<td>12/11/09</td>
<td>D. R. Congo</td>
<td>SDR 346.45 million ($551.45 million)</td>
<td>PRGF</td>
<td>Support</td>
</tr>
<tr>
<td>12/14/09</td>
<td>Burkina Faso</td>
<td>SDR 33.11 million ($52.52 million)</td>
<td>PRGF Augmentation</td>
<td>Support</td>
</tr>
<tr>
<td>12/18/09</td>
<td>Seychelles</td>
<td>SDR 19.8 million ($31.1 million)</td>
<td>EFF</td>
<td>Support</td>
</tr>
</tbody>
</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.
<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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<tbody>
<tr>
<td>01/27/10</td>
<td>Haiti</td>
<td>SDR 65.5 million ($102 million)</td>
<td>ECF Augmentation</td>
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</tr>
<tr>
<td>01/29/10</td>
<td>Moldova</td>
<td>SDR 369.6 million ($574.4 million)</td>
<td>ECF / EFF</td>
<td>Support</td>
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<tr>
<td>02/04/10</td>
<td>Jamaica</td>
<td>SDR 820.5 million ($1.27 billion)</td>
<td>SBA</td>
<td>Support</td>
</tr>
<tr>
<td>02/19/10</td>
<td>Malawi</td>
<td>SDR 52.05 million ($79.4 million)</td>
<td>ECF</td>
<td>Support</td>
</tr>
<tr>
<td>02/19/10</td>
<td>The Gambia</td>
<td>SDR 4.67 million ($7.1 million)</td>
<td>ECF Augmentation</td>
<td>Oppose</td>
</tr>
<tr>
<td>02/24/10</td>
<td>Iraq</td>
<td>SDR 2.38 billion ($3.64 billion)</td>
<td>SBA</td>
<td>Approve</td>
</tr>
<tr>
<td>03/08/10</td>
<td>Liberia</td>
<td>SDR 4.2 million ($6.4 million)</td>
<td>Additional Interim Assistance Under Enhanced HIPC</td>
<td>Approve</td>
</tr>
<tr>
<td>03/17/10</td>
<td>El Salvador</td>
<td>SDR 513.9 million ($790 million)</td>
<td>SBA</td>
<td>Approve</td>
</tr>
<tr>
<td>03/25/10</td>
<td>Mexico</td>
<td>SDR 31.528 billion ($48 billion)</td>
<td>Successor FCL</td>
<td>Approve</td>
</tr>
<tr>
<td>03/31/10</td>
<td>Côte d'Ivoire</td>
<td>SDR 5 million ($7.6 million)</td>
<td>Additional Interim Assistance Under Enhanced HIPC</td>
<td>Approve</td>
</tr>
</tbody>
</table>

*Notes:*
1. ECF: Extended Credit Facility; EFF: Extended Fund Facility; SBA: Stand-By Arrangement; EPCA: Emergency Post-Conflict Assistance; FCL: Flexible Credit Line

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.
<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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<tbody>
<tr>
<td>04/02/10</td>
<td>Grenada</td>
<td>SDR 8.775 million</td>
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<tr>
<td></td>
<td></td>
<td>($13.3 million)</td>
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<tr>
<td>05/07/10</td>
<td>Guinea-Bissau</td>
<td>SDR 22.365 million</td>
<td>ECF</td>
<td>Abstain</td>
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<tr>
<td></td>
<td></td>
<td>($33.3 million)</td>
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<td></td>
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<tr>
<td>05/07/10</td>
<td>Colombia</td>
<td>SDR 2.322 billion</td>
<td>FCL</td>
<td>Approve</td>
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<tr>
<td></td>
<td></td>
<td>($3.46 billion)</td>
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<tr>
<td>05/09/10</td>
<td>Greece</td>
<td>SDR 26.4 billion</td>
<td>SBA</td>
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<tr>
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<td></td>
<td>(€30 billion)</td>
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<tr>
<td>05/12/10</td>
<td>Uganda</td>
<td>NCV</td>
<td>PSI</td>
<td>Approve</td>
</tr>
<tr>
<td>05/28/10</td>
<td>Nepal</td>
<td>SDR 28.52 million</td>
<td>RCF</td>
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<tr>
<td></td>
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<td>($42.05 million)</td>
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<td>06/02/10</td>
<td>Lesotho</td>
<td>SDR 41.88 million</td>
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<td></td>
<td>($61.4 million)</td>
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<tr>
<td>06/02/10</td>
<td>Solomon Islands</td>
<td>SDR 12.48 million</td>
<td>SCF</td>
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<tr>
<td></td>
<td></td>
<td>($18.3 million)</td>
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<tr>
<td>06/04/10</td>
<td>Sierra Leone</td>
<td>SDR 31.11 million</td>
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<td></td>
<td></td>
<td>($45.4 million)</td>
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<tr>
<td>06/04/10</td>
<td>Tanzania</td>
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<td>PSI</td>
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<td>06/07/10</td>
<td>Tajikistan</td>
<td>SDR 26.1 million</td>
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<td>($38.1 million)</td>
<td>Augmentation</td>
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<td>06/07/10</td>
<td>Antigua and Barbuda</td>
<td>SDR 81 million</td>
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<td>($117.8 million)</td>
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<tr>
<td>06/14/10</td>
<td>Mozambique</td>
<td>NCV</td>
<td>PSI</td>
<td>Approve</td>
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<tr>
<td>06/14/10</td>
<td>Burkina Faso</td>
<td>SDR 46.154 million</td>
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<tr>
<td>06/14/10</td>
<td>Benin</td>
<td>SDR 74.28 million</td>
<td>ECF</td>
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<tr>
<td>06/16/10</td>
<td>Rwanda</td>
<td>NCV</td>
<td>PSI</td>
<td>Approve</td>
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<tr>
<td>06/25/10</td>
<td>Togo</td>
<td>SDR 11 million</td>
<td>ECF</td>
<td>Abstain</td>
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<tr>
<td></td>
<td></td>
<td>($16.2 million)</td>
<td>Augmentation</td>
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<tr>
<td>06/28/10</td>
<td>Armenia</td>
<td>SDR133.40 million</td>
<td>EFF</td>
<td>Approve</td>
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<tr>
<td></td>
<td></td>
<td>($197.4 million)</td>
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<td></td>
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<td>SDR133.40 million</td>
<td>ECF</td>
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<tr>
<td></td>
<td></td>
<td>($197.4 million)</td>
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</tbody>
</table>

*Notes:*
1. ECF: Extended Credit Facility; FCL: Flexible Credit Line; SBA: Stand-By Arrangement; PSI: Policy Support Instrument; 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.
### July 1, 2010 – September 30, 2010

<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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<tr>
<td>07/02/10</td>
<td>Poland</td>
<td>SDR 13.69 billion ($20.43 billion)</td>
<td>FCL</td>
<td>Support</td>
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<tr>
<td>07/21/10</td>
<td>Republic of Kosovo</td>
<td>SDR 92.656 million ($139.6 million)</td>
<td>SBA</td>
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<tr>
<td>07/21/10</td>
<td>Haiti</td>
<td>SDR 40.9 million ($60 million)</td>
<td>ECF</td>
<td>Support</td>
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<tr>
<td>07/28/10</td>
<td>Ukraine</td>
<td>SDR 10 billion ($15.15 billion)</td>
<td>SBA</td>
<td>Support</td>
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<tr>
<td>07/30/10</td>
<td>Republic of Yemen</td>
<td>SDR 243.5 million ($369.8 million)</td>
<td>ECF</td>
<td>Support</td>
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<tr>
<td>09/15/10</td>
<td>Kyrgyz Republic</td>
<td>SDR 22.2 million ($33.73 million)</td>
<td>RCF</td>
<td>Support</td>
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<tr>
<td>09/15/10</td>
<td>Pakistan</td>
<td>SDR 296.98 million ($451 million)</td>
<td>ENDA</td>
<td>Support</td>
</tr>
</tbody>
</table>

* Notes:*
1. FCL: Flexible Credit Line; SBA: Stand-by Arrangement; ECF: Extended Credit Facility; RCF: Rapid Credit Facility; ENDA: Emergency Natural Disaster Assistance

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.