

Multilateral Development Banks
Raising Economic Growth and Reducing Poverty

**FY2003 Budget Request
for International Programs**



DEPARTMENT OF THE TREASURY

Treasury International Programs: FY2003 Request

<i>Budget Authority; millions of dollars</i>	<u>FY2002 Appropriation</u>	<u>FY2003 Request</u>	<u>Of which Arrears</u>	<u>Remaining Arrears</u>
I. MULTILATERAL DEVELOPMENT BANKS (MDBs)	1,174.8	1,437.1	177.7	355.4
International Development Association (IDA)	792.4	874.3	24.3	48.7
Multilateral Investment Guarantee Agency	5.0	3.6	3.6	7.3
Global Environment Facility (GEF)	100.5	177.8	70.3	140.6
African Development Bank (AfDB)	5.1	5.1	*0.0	*0.0
African Development Fund (AfDF)	100.0	118.1	0.1	0.1
Asian Development Fund (AsDF)	98.0	147.4	44.4	88.8
Multilateral Investment Fund (MIF)	0.0	29.6	29.6	59.2
Inter-American Investment Corp. (IIC)	18.0	30.3	5.3	10.7
European Development Bank (EBRD)	35.8	35.8	*0.0	*0.0
Int'l Fund for Agricultural Development (IFAD)	20.0	15.0	*0.0	*0.0
II. DEBT REDUCTION PROGRAMS	229.0	0.0	0.0	--
A. HIPC Annual Funding	224.0 1/	0.0	0.0	--
B. Tropical Forest Conservation Act (TFCA)	5.0 2/	-- 3/	--	--
III. TECHNICAL ASSISTANCE	6.5	10.0	--	--
TOTAL BUDGET AUTHORITY	1,410.3	1,447.1	177.7	355.4
<u>Emergency Response Fund (ERF):</u>				
Technical Assistance	3.0			
TOTAL BUDGET AUTHORITY, incl. ERF	1,413.3	1,447.1	177.7	355.4

* Less than \$100,000

1/ Remaining \$16 million U.S. contribution to the HIPC Trust Fund funded out of previously appropriated but uncommitted funds.

2/ Congress also provided that up to \$20 million of unobligated balances from prior year appropriations should be available for TFCA.

3/ The Administration's FY03 request includes \$50 million in AID funding for forestry conservation, up to \$40 million of which may be made available for activities under the TFCA.

Treasury International Programs: Raising Economic Growth and Reducing Poverty

- ◆ **U.S. is strongly committed to global economic growth and development**
 - ◆ We are counting on the multilateral development banks (MDBs), debt programs and technical assistance to be more effective in assisting developing countries achieve greater economic growth and poverty reduction
 - ◆ The U.S. firmly believes the MDBs must do a better job in increasing opportunities for people to earn a decent living by focusing greater attention on the outcomes of their assistance, including rigorous, quantifiable measures of the impact of each aid project
 - ◆ Secretary O'Neill has called on the MDBs to help raise living standards by focusing on projects that increase productivity. He has urged MDBs to:
 - Place greater emphasis on education, health and private sector development
 - Promote rule of law, enforceable contracts, property rights and a stable government process that can help eliminate corruption
 - Improve coordination with each other

Treasury International Programs: Raising Economic Growth and Reducing Poverty

- ◆ **As proposed by President Bush, the U.S. is working to negotiate a significant increase in MDB funds for the poorest countries as grants rather than loans**
 - ◆ This proposal is a pillar of the U.S. MDB growth strategy
 - It envisages increased use of grants for basic health and education services and for fighting infectious diseases in the poorest countries
 - ◆ Grants are the best way to help poor countries make productive investments without saddling them with ever-larger debt burdens
 - Proposal will help avoid need for future HIPC debt relief

Looking Ahead: MDBs and Millennium Development Goals

- ◆ **MDB activities are integral to achieving the goals of the UN Millennium Declaration by 2015**
 - ◆ MDBs are using country strategies to assess progress toward these goals, and to plan their programs and projects to help meet those goals. MDBs are the leading external financiers for many of the Millennium Goals, which include:
 - Eradicate extreme poverty and hunger
 - Achieve universal primary education
 - Promote gender equality and empower women
 - Reduce child mortality
 - Improve maternal health
 - Combat HIV/AIDS, malaria and other diseases
 - Ensure environmental sustainability

Looking Ahead: Deepening MDB Reforms

- ◆ **Our MDB growth agenda sets high expectations for the institutions**
 - ◆ Stronger results-based performance standards
 - Funding priority for the good performers and serious reformers
 - Linking supplementary IDA contribution to achievement of specific measurable results
 - All MDBs urged to measure and project program results
 - ◆ Strengthening evaluation and monitoring mechanisms to ensure quality
 - Independent evaluation units to track monitorable results and outcomes
 - Creation of internal audit procedures and anti-corruption programs
 - ◆ Increased transparency of operations
 - Public forums and inspection panels to ensure MDB's compliance with their policies
 - Expanded public disclosure and consultations on key policy and strategy papers
 - ◆ Raising the bar on investment criteria
 - Judging projects by how much they raise productivity
 - Fighting corruption through policy conditions, procurement reform and institutional change
 - ◆ Increasing amount of assistance provided in grants to the poorest countries to break the cycle of accumulating unsustainable debt burdens

Responding to Global Challenges

◆ Financial Crisis Prevention and Response

- ◆ MDBs are assisting countries implement reforms that can help them avoid financial crises
 - World Bank-IMF: Diagnostics and advice on strengthening countries' financial sector
 - IDB: Promoting competitiveness, regional integration and social safety nets
 - AsDB Increasing corporate and financial sector transparency
 - EBRD Advancing financial sector reform
- ◆ MDB support helps countries strengthen their economies and lay the basis for growth

Responding to Global Challenges

◆ Supporting Regions and Countries Helping to Combat Terrorism

- ◆ The MDBs and Treasury Technical Assistance programs are providing critical support for the global battle against terrorism and money laundering activities
- ◆ World Bank and the IMF are:
 - Providing technical assistance to help establish financial intelligence units, strengthen money-laundering legislation, and address system vulnerabilities
 - Intensifying efforts to detect vulnerability to money laundering and terrorist financing in country procurement processes and financial systems
 - Improving analysis of informal banking systems, such as “hawalas”, which can be exploited by terrorists
- ◆ All MDBs have taken steps to strengthen their due diligence procedures for monitoring their own and borrowers’ use of funds to prevent MDB funds from falling into the hands of terrorists
- ◆ MDBs are also helping countries develop effective judicial systems, honest customs services and improved airport security - all of which are essential to combating terrorism.

Responding to Global Challenges

◆ Providing Post-Conflict Assistance to Keep the Peace

- ◆ MDBs are leading the effort to rebuild Afghanistan - just as they have for other war-torn states - and to provide assistance to front-line states that are adversely affected by war or terrorism
 - Afghanistan: World Bank and AsDB will provide \$1B over 3 years for reconstruction
 - Central Asian Republics: World Bank, AsDB and EBRD are enhancing their work programs in these nations
- ◆ MDBs have provided assistance in nearly 40 other war-torn countries to help rebuild economies and, thereby, help keep the peace
 - Ethiopia/Eritrea: World Bank provided nearly \$600M for post-conflict recovery since 1998
 - Balkans: World Bank/IDA have provided \$240M for infrastructure and services in 2001 and contributed \$35M to an international trust fund
 - Rwanda: In 1999, World Bank provided \$75M for post-conflict recovery and reconciliation work
 - East Timor: World Bank and AsDB set up a \$30M facility for a post-conflict community rebuilding program

Responding to Global Challenges

◆ Responding to Natural Disaster

- ◆ Helping to reduce damage from natural disasters. In 2001:
 - Mexico: World Bank provided \$400 M to reduce vulnerability to hurricanes and other natural disasters
 - Grenada: World Bank provided \$5 M to strengthen preparedness for violent storms
 - Belize: World Bank provided \$13 M in to improve water drainage to handle floods
 - Nicaragua: World Bank provided \$14 M to strengthen preparedness for flooding
- ◆ MDBs record of assistance in the aftermath of natural disasters includes:
 - Central America: Since Hurricane Mitch in 1998, the MDBs have approved \$3.5 B in new lending and provided debt relief
 - Turkey: World Bank provided \$1 B following an earthquake in 1999
 - Venezuela: IDB approved \$150 M following flooding in 1999
 - El Salvador: World Bank and IDB provided nearly \$200 M in 2001 after two earthquakes
 - India: World Bank and AsDB approved \$900 M in 2001 for post-earthquake aid
 - Bangladesh: AsDB approved \$68 M in flood assistance in 2000
 - Mozambique: World Bank and AfDB provided \$30 M for flood recovery in 2000

Responding to Global Challenges

◆ HIV/AIDS and Other Infectious Diseases

- ◆ An estimated 40 million people were living with HIV/AIDS worldwide at end-2001
- ◆ With strong U.S. backing, the MDBs are increasing their support to build health infrastructure and respond to HIV/AIDS, TB and Malaria as well as other infectious diseases:
 - World Bank: Largest external source of funds for health and to combat HIV/AIDS. Committed \$2.3 billion to critical HIV/AIDS effort, with over \$700 M in WB FY01 alone. Expect WB FY02 HIV/AIDS support of around \$700 M. Committed \$200 M for malaria control activities. Also committed \$350 M in TB efforts, with 30% increase in TB control projected this fiscal year.
 - AfDF: Has stepped up its loans and grants for HIV/AIDS control programs with major projects underway in Chad, Gabon and Zimbabwe.
 - AsDB: Helping to stem HIV/AIDS infection rates before they lead to pandemic. Lending for HIV/AIDS and other infectious disease totaled \$222 M in FY01 and is expected to increase to \$338 M in FY02.

Promoting Trade and Investment Opportunities

- ◆ **MDB lending and technical assistance are important instruments for promoting policy reform and private sector development, creating a more fertile and open business environment for commercial interests by:**
 - ◆ Promoting growth-oriented policies
 - ◆ Restructuring financial sectors and privatizing state-owned firms
 - ◆ Rationalizing tax systems
 - ◆ Improving legal protections and eliminating regulatory obstacles
 - ◆ Creating innovative programs to encourage private investment
 - ◆ Eliminating restrictive trade and investment practices
 - ◆ Promoting good governance, including transparency in budgeting and procurement
 - ◆ Lending to micro, small and medium sized enterprises
- ◆ **In addition, economic progress in the developing world is important to U.S. economic interests and domestic prosperity**
 - ◆ Between 1990 and 2000, U.S. exports of goods to developing countries more than doubled, from \$139B in 1990 to \$328B in 2000

Extending Democratic Values

- ◆ **The U.S. is committed to reshaping the MDBs to stress values that have served us well**
 - ◆ Encouraging democracy by increasing transparency, participation and accountability to give people a voice in decisions that affect their lives
 - ◆ Supporting good governance and market-based reforms by conditioning assistance on a country's commitment to sound policies
 - ◆ Promoting sound environmental and labor policies
 - ◆ Holding institutions accountable for results
- ◆ **The HIPC Initiative, an important tool for achieving economic reforms, growth and poverty reduction, is based fundamentally on governments taking greater responsibility for their own choices**
 - ◆ HIPC debt reduction is currently allowing 24 countries, including 20 in Africa, to channel debt savings into health, education, and other key investments
 - ◆ For example, Mozambique has committed to use debt service savings to expand the stock of basic medicines in government clinics
 - ◆ Uganda used HIPC debt relief to fulfill a commitment to eliminate school fees for grade school students, which had been a major impediment to enrollment

Treasury International Programs: Generating New Funding to Support U.S. Objectives

◆ For the MDBs

- ◆ In 2001, the U.S. provided \$1.2B in new funding, while the MDBs made new financing commitments of \$45B
- ◆ Historically, the MDBs have provided \$20 in development lending for every \$1 provided by the U.S.

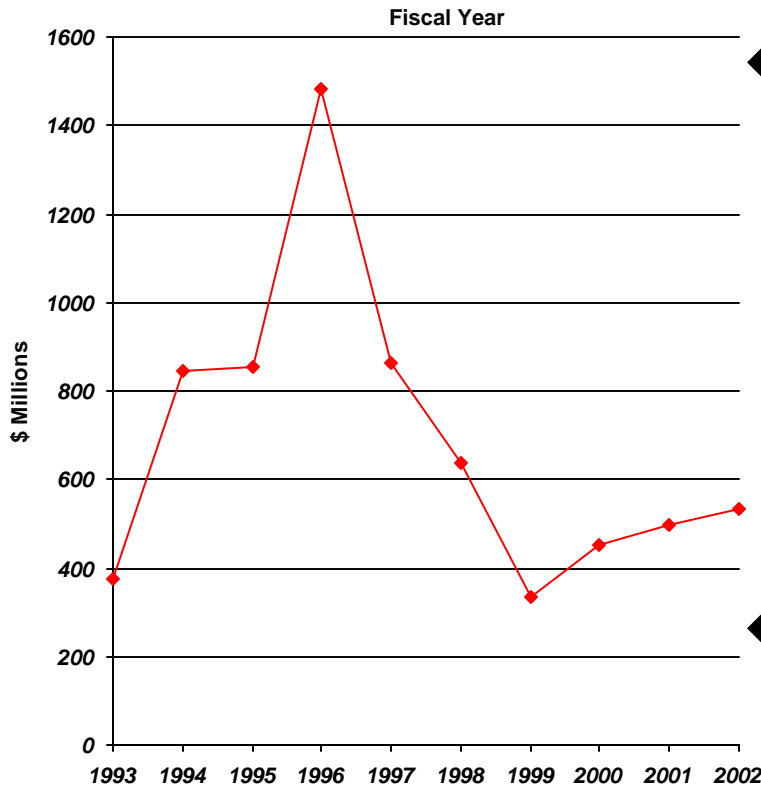
◆ Under the Enhanced HIPC Initiative

- ◆ Every \$1 of U.S. contributions to HIPC will catalyze roughly \$30 from all creditors towards the cost of debt relief

FY2003 Request for Multilateral Development Banks

- ◆ **Total FY2003 Appropriation Request for MDBs: \$1,437.1M**
- ◆ **FY2003 Request Fully Funds U.S. Annual Commitments: \$1,259.4M**
 - ◆ FY2003 request reflects increases in proposed contributions to IDA and AfDF
 - ◆ The Bush Administration is prepared to provide additional increases to IDA in subsequent years as long as it demonstrates results and performance
- ◆ **Request funds first year of 3-year Arrears Clearance Plan: \$177.7 M**
 - ◆ Total arrears now \$533M, up from \$499M last year

MDB Arrears: A Three-Year Payment Plan, beginning in FY2003



◆ **U.S arrears to MDBs now total \$533.2 million**

- ◆ In FY2002, arrears climbed for the third consecutive year, after declining substantially from 1996 to 1999.
- ◆ During FY1996, U.S. arrears peaked at close to \$1.5 billion, creating a crisis in IDA and seriously threatening our capacity to exercise leadership in MDBs.

◆ **Full funding for FY2003 request is critical**

- ◆ Our request would trim arrears by one-third and help pave the way for full arrears elimination by FY2005.
- ◆ U.S. credibility and success in pressing for reforms depend critically on meeting our financial commitments.

FY2003 Authorization Requests

Authorization requests will be submitted to Congress for the following replenishments:

- ◆ **International Development Association (IDA):**

For 13th replenishment (IDA-13)

The U.S. is proposing a results-based financing framework, with increases in the U.S. contribution conditioned on IDA's performance. Would provide \$850 M in FY2003, \$950 M in FY2004 and \$1,050 M in FY 2005 with amounts above \$850 million subject to achievement of specific measurable results

- ◆ **African Development Fund (AfDF):**

For 9th replenishment (AfDF-9)

The U.S. and other donors have called for the AfDF to play a leadership role in good governance, raising productivity and reducing poverty. Would provide \$118M per year for 3 years

Negotiations are also continuing for the third replenishment of the Global Environment (GEF-3) for which authorization is provided by prior legislation. An authorization request is pending for U.S. contributions to the eighth replenishment of the Asian Development Fund (AsDF-8), for which negotiations were completed in 2000

Debt Reduction Programs

◆ Heavily Indebted Poor Countries (HIPC):

- ◆ The U.S. committed to a \$600M contribution to the multilateral HIPC Trust Fund and 100% forgiveness of bilateral debt owed to U.S. by qualifying HIPC countries. FY2002 appropriation of \$224M, in combination with \$16M in debt account balances fully applied to HIPC Trust Fund, completes our agreed \$600M commitment to the Fund.
- ◆ HIPC Trust Fund resources support debt reduction costs of regional development banks and other multilateral institutions in providing relief to heavily indebted poor countries committed to economic, social and governance reforms.
- ◆ By the end of 2001, 24 countries qualified to begin receiving debt reduction under HIPC.
 - Creditors, including the MDBs and IMF, have committed to reducing about \$36B of their debt. MDB costs of HIPC debt reduction are about 1/2 of the total.
 - Total debt service savings for HIPC countries will average \$1B per year over 5 years. Debt service paid by these countries as a percent of revenues will be reduced from 27% to 12%.

◆ Tropical Forest Conservation Act (TFCA):

- ◆ Under the TFCA, debt reduction agreements have been concluded with four countries: Bangladesh, Belize, El Salvador, and Thailand, saving these countries over \$60M.
- ◆ The Administration's FY03 request includes \$50M in AID funding for forestry conservation activities, up to \$40M of which may be made available for debt reduction under the TFCA.

FY2003 Request for Technical Assistance Program

◆ Technical Assistance Program: \$10M

- ◆ Treasury provides expert advisors to countries facing economic transition or security issues and whose governments are committed to institutional reform.
- ◆ \$4M of the Program would be used for training for foreign governments' finance ministries and offices to combat terrorist financing.
- ◆ Past successes include:
 - South Africa: Streamlined tax administration operations
 - Czech Republic: Organized restructuring and sale of indebted state-owned companies
 - El Salvador: Implementation of new anti-money laundering law
- ◆ Current programs include:
 - Thailand: Creation of a predictable and consistent primary government securities market
 - Senegal: Improving budget transparency, including use of HIPC debt reduction savings
 - Albania: Completing privatization of state-owned savings bank

Looking Ahead: The Key is Effective Partnerships

◆ For Treasury

- ◆ Continued leadership and aggressive advocacy for MDB reforms and increased cost-effectiveness
- ◆ Continued engagement and consultation with Congress and private voluntary organizations

◆ For the MDBs

- ◆ Full implementation of agreed reforms; stronger emphasis on productivity gains to reduce poverty; producing measurable results; and increased grants

◆ For Congress

- ◆ Continued dialogue on priorities and concerns, and support for meeting U.S. financial commitments