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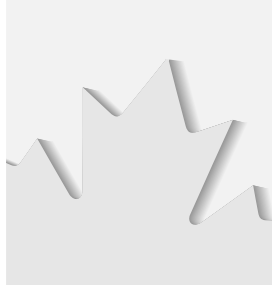
operations under

the bretton woods

and related

agreements act

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International Finance and Economic Analysis Division
International Trade and Finance Branch
Department of Finance
140 O'Connor Street, 14th floor
Ottawa, Ontario
K1A 0G5
Telephone: (613) 943-1643
Facsimile: (613) 943-0279

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INTRODUCTION

The Bretton Woods Institutions, the International Monetary Fund (IMF) and the World Bank, were founded at a conference held in Bretton Woods, New Hampshire, in 1944. The IMF was established to promote the smooth functioning of the international monetary system, encourage international trade and capital movements and support high rates of sustainable economic growth. The IMF (or the “Fund” in the following) is now the central institution in the international monetary system. It exercises a surveillance function by monitoring members’ economic policies, provides policy advice and extends short- and medium-term financial assistance to countries faced with balance of payments and other economic difficulties.

The World Bank’s goal is to help raise living standards and to promote sustainable development in developing countries. As the premier development institution in the world, it provides a wide range of assistance to developing countries, including lending for projects, technical assistance and structural economic policy advice. The World Bank Group is comprised of four organizations: the International Bank for Reconstruction and Development (IBRD), the International Development Association (IDA), the International Finance Corporation (IFC) and the Multilateral Investment Guarantee Agency (MIGA). The IBRD is commonly the component referred to as the “World Bank” (or the “Bank” in the following). The IDA is the component that provides assistance to the world’s poorest developing countries.

Canada is the eighth largest member of the Fund and Bank after the six other G-7 countries and Saudi Arabia. Canada’s formal participation is authorized under the *Bretton Woods and Related Agreements Act*. Under Section 13 of the Act, it is stated that:

“The Minister of Finance shall cause to be laid before Parliament, on or before March 31 next following the end of each year or, if Parliament is not then sitting, on any of the first thirty days next thereafter that either House of Parliament is sitting, a report containing a general summary of operations under this Act and details of all those operations that directly affect Canada, including the resources and lending of the World Bank Group, the funds subscribed or contributed by Canada, borrowings in Canada and procurement of Canadian goods and services.”

The sections that follow review the activities and operations of first the IMF and then the World Bank for the year 1995. A final section deals with issues common to both institutions. The annexes contain detailed numerical summaries of the year’s activities.

Roles of the IMF and World Bank

International Monetary Fund

- *Oversees the international monetary system and promotes international monetary co-operation.*
- *Promotes exchange stability and orderly exchange relations among member countries.*
- *Provides short- to medium-term financial support to members facing balance of payments difficulties.*
- *Draws its financial resources primarily from the quota subscriptions of its members.*

World Bank

- *Promotes economic development and structural reform in developing countries.*
- *Assists developing countries through long-term financing of development projects and programs.*
- *Provides special financial assistance to the poorest developing countries through the International Development Association.*
- *Stimulates private enterprises in developing countries primarily through its affiliate, the International Finance Corporation (IFC).*
- *Secures most of its financial resources by borrowing on international capital markets.*

INTERNATIONAL MONETARY FUND

Overview

Canada is an open economy that is highly dependent on foreign trade and financial flows. Consequently, Canada has a major stake in a strong international monetary system that promotes the free movement of goods, services and financial assets. The IMF is important to ensuring a sound world financial system and broad-based sustainable economic growth through assistance to countries experiencing unsustainable external imbalances and related economic difficulties.

Benefits of Membership

IMF membership provides a number of specific benefits:

- The Minister of Finance is a Governor of the Fund and has an Executive Director on its 24-member Executive Board. This representation allows Canada to have a high-level influence on decisions taken by the IMF on specific country assistance programs and major issues affecting the world financial system.
- The IMF, through its regular surveillance of member country economies, provides Canada with an independent source of policy advice on macroeconomic policies and engages in regular dialogue on these policies with Canadian officials at Finance Canada and the Bank of Canada.
- The efforts of the IMF to ensure debtor countries abide by their obligations under Fund support programs help ensure that they repay Canadian bilateral loans and use our bilateral development assistance effectively.
- Canada earns a financial return on its financial position in the IMF.
- Were Canada ever to experience severe balance of payments difficulties, it would have the right to approach the IMF for financial assistance.

Canada's Priorities at the IMF

Global economic and financial stability

A key objective for Canada is to ensure that the IMF is able to cope with the emerging needs of the world economy and can deal with any new crises that might arise such as, for example, that which affected Mexico in late 1994. This requires that the Fund move quickly to adapt its lending facilities and policies.

In response to the Mexican financial crisis in late 1994, the IMF moved on an unprecedented scale to support Mexico's strong program of economic adjustment and to limit damage to other economies. However, the crisis illustrated the need to review the capacity of the international monetary system, and, especially, the IMF to deal with major financial crises.

The Mexican Crisis

The Mexican financial crisis in late 1994 had repercussions not just for Mexico, but the international monetary system. Investor concern about the Mexican peso, exacerbated by Mexican political developments, triggered capital flight and repeated bouts of speculation against the peso through 1994.

These developments led to a steady depletion of foreign reserves and the devaluation and eventual floating of the peso in December 1994. Foreign and domestic investors who had incurred substantial losses on peso-denominated assets withdrew significant amounts of funds from Mexican financial markets.

The severe crisis of confidence spilled over on other developing country "emerging markets", primarily in Latin America, and even some industrial countries.

The Mexican government moved quickly to introduce a stabilization program to reduce economic imbalances and restore the confidence of foreign and domestic investors. The IMF responded on an unprecedented scale to support Mexico's adjustment program and limit spill-over and contagion effects. On February 1, 1995, the IMF approved an 18-month stand-by credit for Mexico of SDR 12.1 billion (U.S. \$17.8 billion). This is the largest IMF package ever approved for a member country.

Discussions at the IMF's Interim Committee (a meeting of IMF Governors with representation on the Executive Board held twice a year) in April 1995 and the Halifax Summit in July 1995 led to recommendations for reforms in IMF procedures and facilities. The key recommendations were directed at:

- identifying problems before they reach crisis proportions through a strengthening of the IMF's surveillance of national policies and financial market developments and through fuller disclosure of this information to market participants;
- ensuring that procedures are in place to shorten the time needed to respond to financial crises when they do occur;
- ensuring, through consideration of an 11th General Review of Quotas, that the Fund has adequate resources for its regular lending operations and ensuring, through a doubling of the resources currently available under the IMF's General Arrangements to Borrow, that the Fund has adequate liquidity to respond to financial emergencies; and

- ensuring that the Fund has sufficient resources to continue to finance the Enhanced Structural Adjustment Facility for the benefit of the IMF's poorest member countries.

As follow-up to these recommendations, the Executive Board of the Fund took action over the last year in the following areas.

Provision and publication of data. New data standards are being established to better inform markets of financial and economic developments and to strengthen Fund surveillance. Countries that are capital market borrowers will make publicly available more timely, comprehensive data under the IMF's "Special Data Dissemination Standard" established in April 1996. The IMF will establish a less demanding general standard for all members later in 1996. Information on the statistical practices of members subscribing to the Special Data Dissemination Standard will be posted on an IMF "electronic bulletin board" on the Internet. The IMF expects to have the electronic bulletin board operational by the end of August 1996. Canada has subscribed to the higher standard.

Emergency Financing Mechanism. The Fund can respond more promptly to serious financial crises through a new standing procedure – the Emergency Financing Mechanism. The new procedure will allow the Fund, in exceptional circumstances, to respond quickly with assistance for members facing sudden market disturbances and committed to undertaking necessary reform measures.

General Arrangements to Borrow (GAB). To ensure that the Fund has adequate resources to meet demands, a group of industrial countries known as the Group of Ten (G-10) agreed last October to examine new financing arrangements that could complement the General Arrangements to Borrow (a credit arrangement which backstops the IMF's regular resource base). A G-10 Working Group, chaired by Canada, has undertaken consultations with potential new participants. The aim is to double the resources available through the GAB with contributions from the G-10 countries and from other countries having the capacity to support the international financial system.

Enhanced Structural Adjustment Facility (ESAF). In October 1995, the Interim Committee supported a continuation of the ESAF, the Fund's main lending arrangement for providing resources to the poorest countries on concessional terms. The Committee requested that the Executive Board prepare proposals on the future financing of ESAF, including putting the facility on a self-sustained basis. At its April 1996 meeting, the Committee requested the Executive Board conclude its discussions on developing financing proposals in time for the IMF/World Bank annual meetings in September 1996.

IMF Issues at the Halifax Summit

G-7 leaders agreed at the 1994 Economic Summit that the June 1995 Halifax Economic Summit should focus on how to “assure that the global economy of the 21st century will provide sustainable development with good prosperity and well-being for the peoples of our nations and the world” by reviewing the framework of international institutions required to meet these challenges.

The G-7 concluded at the Halifax Summit that while the international financial institutions had shown exceptional flexibility in responding to the changing needs of the world economy, improvements were needed. Consequently, the G-7 recommended that the International Monetary Fund:

- *develop an improved early warning system to detect financial crises by strengthening IMF surveillance of national economic policies and financial market developments;*
- *increase the IMF’s capacity to respond to crises when they occur by establishing new procedures to provide quicker access to IMF resources; and*
- *increase the resources available to the IMF to deal with financial crises.*

Transparency and accountability

Wider public exposure of the activities of the IMF contributes to greater public understanding of the institution. Canada has supported measures to enhance the transparency and accountability of the Fund’s operations. The Fund has responded to the concerns of members by making available more and more information on its activities. This includes publication of country reports, increased coverage of the Fund’s annual consultations with member countries, and opening of the archives for documents that are more than 30 years old.

Governance issues

The IMF is engaged on governance issues. While it often counsels countries to exercise fiscal restraint, the IMF devotes increasing attention to the composition of government spending in member countries and the economic implications of unproductive expenditures, especially military spending. IMF-supported programs emphasise the importance of reducing or eliminating unproductive expenditures to free up financing for more economically useful purposes, including support for social safety nets and other social expenditures.

How to Access Information from the IMF

The IMF's Publication Services provides a wide variety of Fund documents on the policies and operations of the IMF as well as on world financial and economic developments, including:

- *IMF Annual Report,*
- *World Economic Outlook,*
- *IMF Staff Country Reports,*
- *International Financial Statistics,*
- *Annual Report on Exchange Arrangements and Exchange Restrictions,*
- *Press Releases,*
- *IMF Survey.*

The Publications Centre is located at 700 - 19th Street, N.W., Washington, D.C. 20431 (Telephone: (202) 623-7430; facsimile: (202) 623-7201). Internet address: publications@imf.org. A selection of Fund information is also available on the Internet through the World Wide Web: gopher://gopher.imf.org.

Administrative Efficiency

Canada has been among those urging the Fund to conduct its own administrative operations in a fiscally responsible manner. Canada has pressed the Fund to seek more cost-effective ways to deliver its programs and has opposed increases in staff salaries. Fund management has responded through measures to streamline Fund activities, constrain administrative expenses and reduce staffing levels.

Lending Developments in 1995

A core activity of the Fund is to provide short- and medium-term financial assistance to members faced with balance of payments difficulties. The objective is to enable countries facing such difficulties to correct temporary payments imbalances with a minimum of disruption to the international monetary system. The provision of financing from the IMF, and the additional financing that an arrangement with the Fund often attracts from other sources, enable smoother economic adjustment.

At the end of 1995, the IMF had lending arrangements worth SDR 31.2 billion¹ in place for 62 member countries (see Annex 1). Drawings by these countries increased sharply in 1995 to SDR 18.4 billion, three times the level of 1994. The significant rise in lending reflected large programs by Mexico (SDR 8.8 billion) and Russia (SDR 3.6) billion.

¹ The SDR is the standard unit of account for the IMF's operations. It represents a weighted basket of five major currencies – the U.S. dollar, the German mark, the Japanese yen, the pound sterling and the French franc. At the end of 1995, the exchange rate was SDR 1 = C \$2.03.

How the IMF Works

The IMF works like a credit union. It has a large pool of resources that it makes available in several ways to help members finance temporary balance of payments problems.

Members provide resources to the IMF determined by "quotas" reflecting each country's relative importance in the world economy. A country's quota in turn helps determine the amount of Fund resources that it may use if it experiences economic difficulties. At the end of 1995, the total quotas for the Fund's 181 members was SDR 145.3 billion.

A member country uses the general resources of the IMF by making a purchase (drawing) of other members' currencies with an equivalent amount of its own currency. A member repurchases (repays) its own currency from the IMF with other members' currencies over a specified period of time and with interest. In this way, a member country receives credit from other members.

Members seeking financial assistance can draw on a "reserve tranche" and four "credit tranches", each amounting to 25 per cent of their quota. For access to resources beyond the first credit tranche, the member and the IMF have to reach a mutual agreement on a set of economic measures and reforms aimed at removing the source of the country's balance of payments difficulty and creating the conditions necessary for sustainable non-inflationary growth. Depending on the severity of the problem, these measures are agreed as part of a "Stand-by Arrangement" (SBA) or an "Extended Fund Facility" (EFF). Stand-by arrangements typically last 12 to 18 months while extended arrangements generally run for three years. Drawings of the higher tranches are generally spread over the duration of the arrangement.

Members can also use financial facilities created for specific purposes, including the Compensatory and Contingency Financing Facility (CCFF) which provides financial support to members experiencing temporary export shortfalls or other unforeseen adverse external shocks.

Concessional financing to low-income developing countries under the Structural Adjustment Facility (SAF) and the Enhanced Structural Adjustment Facility (ESAF) is made available in the form of highly concessional loans.

Table 1
IMF Resources Flows

	1994	1995
	(in SDR billions)	
Total purchases	5.9	18.4
Of which:		
Stand-by arrangements	1.8	14.3
Extended fund facility	0.9	2.0
Compensatory and contingency financing facility	0.3	0.0
Structural adjustment facility and		
Enhanced structural adjustment facility	0.9	1.4
Systemic transformation facility	1.9	0.6
Total repurchases	4.6	6.6
Net purchases	1.3	13.8

In recent years, lending has also increased substantially under Stand-by Arrangements and the IMF's concessional facilities (Structural Adjustment Facility (SAF) and the Enhanced Structural Adjustment Facility (ESAF)). In addition, lending under the Extended Fund Facility (EFF) doubled in 1995 as a result of an SDR one billion credit to Argentina.

Recourse to two other special purpose facilities, the Systemic Transformation Facility (STF) and the Compensatory and Contingency Financing Facility (CCFF), declined in 1995. Access under the STF, a temporary facility created to help Russia and other former centrally planned countries make the transition to market economies, expired at the end of 1995.

Managing Canada's Interests at the IMF

The Minister of Finance is Canada's Governor at the IMF and is responsible for the management of Canadian interests at the Fund. The Minister exercises influence on IMF issues through interventions at the spring and fall meetings of the Interim Committee, his plenary speech at the IMF/World Bank Annual Meetings and through periodic meetings with the Managing Director of the Fund. (The Minister's speeches are available on the Internet. Finance Canada's Home Page is located at <http://www.fin.gc.ca/>)

Management of Canada's interests in the ongoing work of the IMF is delegated by the Governor to the Executive Director, Mr. Ian Clark, Canada's representative on the Executive Board. Mr. Clark is one of 24 Executive Directors; he represents Canada and several other countries (Ireland and several Caribbean countries) which form a constituency at the Executive Board. Of the 24 members of the current Executive Board, 12 are from developing countries and 12 from developed countries. As the main decision making body of the Fund, the Board normally meets three times a week.

The Department of Finance co-ordinates Canadian policy and operational interests in the IMF. Other involved departments and agencies include the Bank of Canada, Foreign Affairs and International Trade Canada (FAITC), and the Canadian International Development Agency (CIDA). In co-operation with these agencies and departments, and with our Executive Director's Office at the IMF, the International Finance and Economic Analysis Division of the Department of Finance conducts analyses and prepares advice on the policy issues and specific country programs that are brought before the Executive Board.

Parliament is informed of the activities and operations of the Bretton Woods institutions through the tabling of the annual report on the operations of the Bretton Woods institutions, the communiqués of the Interim and Development Committees and by appearances of the Canadian Executive Directors and departmental officials before parliamentary committees.

Canada's Voting Record

Since most decisions at the Fund are taken on a consensus basis, formal votes by Governors and the Executive Board are rare. Canada attempts to influence the development of Fund policy proposals before they are brought to the Board (often through the circulation of memorandum outlining Canadian positions) or to influence other members through Board discussions. In 1995, Canada voted against a proposal to increase the salaries of Executive Directors and opposed an increase in IMF staff salaries.

Canada's Office at the IMF

In addition to the Executive Director, Canada's office is staffed by a Canadian advisor and two technical assistants. Ireland staffs the Alternate Director's position and the Caribbean countries occupy a second advisor's position.

Structure of the Executive Director's Office

Structure of the Executive Director's Office

Executive Director: Mr. Ian Clark

Canadian Advisor: Mr. Sean O'Connor

Canadian Assistant: Ms. Nicole Laframboise

Canadian Assistant: Mr. Christoph Duenwald

Telephone: (202) 623-7778; facsimile no: (202) 623-4712

Address: 11-100, 700-19th Street, N.W. Washington, D.C. 20431 USA

The primary responsibility of the Executive Director's office is to represent the interests of Canada and the other members of the constituency at the Fund's Executive Board. The Office participates in the Board discussions of a wide variety of policy, operational and administrative matters, including surveillance issues and country assistance requests and reviews.

Canada's Financial Participation

Canada's financial participation in the IMF consists primarily of its quota subscription. Canada's quota is SDR 4,320.3 million, or about 3 per cent of total quotas. Our quota subscription is an asset that is made available to the Fund partly in Canadian dollars and partly in reserve currencies, such as U.S. dollars or SDRs. These latter non-Canadian dollar amounts continue to be part of Canada's foreign exchange reserves. As an asset, Canada's quota subscription is not an expenditure item in the budget of the Canadian government.

Only a tiny portion of the Canadian dollar part of our subscription is actually held in cash by the IMF. The balance is held by the Bank of Canada (in demand notes) in the event the IMF needs to draw upon additional resources. Canada earns interest on its quota subscription when the Canadian dollar is used in Fund lending operations, i.e. drawn by other members. In 1995, Canada received SDR 17.4 million on its net creditor position in the IMF.

Table 2

Canada's Financial Position in the IMF

	December 31, 1995	December 31, 1994
	(in SDR billions)	
Quota	4,320.3	4,320.3
Fund holdings of Canadian dollars ¹	3,484.2	3,691.2
Reserve position in the Fund ²	836.2	629.9

¹ In accordance with Fund regulations, at least 0.25 per cent of Canada's quota is held by the IMF in a Canadian dollar cash deposit at the Bank of Canada. The Fund's remaining Canadian dollar holdings are in the form of non-interest-bearing demand notes, also kept by the Bank of Canada.

² This is the amount Canada is entitled to immediately draw on demand from the IMF for balance of payments purposes. Our reserve position in the Fund is the result of both the portion of our quota subscription made available to the Fund over time in reserve currencies and the use of the Canadian dollar in Fund financial transactions with other members. As the name suggests, the reserve position in the Fund is a part of Canada's official foreign exchange reserves.

At the end of the year, Canada's holdings of SDRs amounted to SDR 791.8 million, or 101.6 per cent of our cumulative allocation of SDRs. On average in 1995, Canada held SDRs in an amount greater than our allocation,

and so earned net interest income of SDR 2.8 million². This income, and the net income from our net creditor position with the Fund noted above, are paid into the Government of Canada's Exchange Fund Account, adding to our foreign exchange reserves.

Canada contributed in 1995 to the IMF's Enhanced Structural Adjustment Facility (ESAF). The facility provides financial support on concessional terms to low-income countries facing protracted balance of payments problems. Canada's commitment to ESAF is a loan of SDR 500 million and a grant of approximately SDR 190 million. At the end of 1995, loan payments under these arrangements totalled SDR 190.4 million and subsidy contributions equalled SDR 46.7 million. Remaining obligations at the end of 1995 were SDR 309.7 million under the ESAF loan and SDR 143.3 million under the interest subsidy.

Canada also has a credit commitment under the General Arrangements to Borrow (GAB), the credit arrangement established by the Group of Ten (G-10) industrial countries to supplement the Fund's resources, if needed. Canada's GAB commitment is the equivalent of SDR 892.5 million. This line of credit has not been called upon in recent years and was not used by the Fund in 1995. It is, however, an important backstop for the Fund in the event of financial crises.

Challenges Ahead

A critical challenge for the Fund is to ensure that it is well positioned to deal with threats to the stability of the international monetary system. In addition, the Fund must continue to provide support to members with balance of payments problems, especially the most heavily indebted poor countries. To meet these challenges:

- The work underway with the G-10 and other countries to double the resources currently available under the IMF's General Arrangements to Borrow should be completed to ensure that the Fund has adequate liquidity to meet financial crises.
- The IMF also requires sufficient resources for its regular lending operations. This underlines the importance of obtaining an adequate increase in Fund quotas under the Eleventh General Review of Quotas which is now underway. Efforts should also be made in the Quota Review to realign members' quotas more closely with their relative positions in the world economy.

² The SDR is an international reserve asset created by the IMF and allocated periodically (by a decision of the IMF Board of Governors) to its members as a supplement to their foreign currency and gold reserves. No allocations have been made since the early 1980s. When a member's holdings of SDRs is greater (lesser) than its cumulative allocation, that member (the Fund) receives interest on the difference.

- The IMF should make an effective contribution to a comprehensive debt strategy by ensuring that it has sufficient resources to continue to finance the Enhanced Structural Adjustment Facility for the benefit of the poorest countries. Further efforts to establish a self-sustained ESAF should continue.

THE WORLD BANK

Overview

Membership in the World Bank affords Canada an important voice on key development issues in the world's premier multilateral development bank. With 179 members, the World Bank has a far-reaching impact on global development. It assists members, both developing countries and countries in transition from planned to market economies, by providing access to world financial markets for development purposes; as well, it advises on policy issues crucial to improving members' longer term development prospects. The World Bank provided loans and credits to these countries in its fiscal year 1995 of over U.S. \$22 billion (see Annex 2). In 50 years of existence it has provided over \$350 billion to the developing world (see Annex 3).

Many of the Bank's members, both developing countries and countries in transition, continue to face serious difficulties in raising the living standards of their populations. However, the Bank's support has been instrumental in transforming a number of countries from dependence towards greater self-reliance. Where countries have established an appropriate enabling environment, private capital is stepping in to play an increasingly important role in helping to finance future growth. In this way, the World Bank has played an important catalytic role.

A new vision for the World Bank

At the June 1995 Halifax Summit, Canada and other G-7 members recommended a number of fundamental changes in the operations of the multilateral institutions. The World Bank's new President, James Wolfensohn, has responded to the challenge by initiating a program of far-reaching reforms. He is committed to making the Bank a more client-focused, better-managed and more responsive organization, better able to meet evolving global challenges. While reforms are still at an early stage, Canada is giving its strong support to President Wolfensohn's efforts to bring about real change at the Bank.

Halifax Summit: Implications for the World Bank

The Halifax communiqué called for reforms of multilateral institutions and improvements in co-ordination. In responding to these recommendations, the World Bank is:

- *undertaking a series of internal reforms to make the Bank more client-focused, better-managed and more responsive to global challenges;*
- *decentralizing its operations. Increasing focus will be placed on work done in the field to improve consultations with those impacted by the Bank's projects. A number of country officers will be moved from headquarters to the field to improve co-ordination on the ground;*
- *better co-ordinating its programs with other multilateral development banks through such means as a common evaluation working group and closer co-operation on country strategies and economic analysis;*
- *improving the integration of private sector activities across the World Bank Group and bringing private sector development under a newly appointed Managing Director who is also heading a new Private Sector Task Force;*
- *reorganizing the Development Committee (the Ministerial committee of the IMF and World Bank) to promote more effective decision-making with greater emphasis on a real exchange of views at the Ministerial level.*

Benefits of membership

- Canada's voting share of about 3 per cent in the World Bank gives us a seat on the Bank's 24-member Executive Board and on the joint IMF/World Bank Development Committee. Canada has the opportunity, both at the Executive Board and within the Bank, to provide direct input into the formulation of Bank policies and operational decisions. Canada and other shareholders provide the Bank with guidance which is ultimately aimed at improving developing countries' economic, social and environmental performance.
- Canada benefits from the Bank's leadership role in bringing together donors to respond quickly to emergency situations in countries in post-conflict situations. For example, Canada and other donors worked closely with the World Bank to assemble an emergency reconstruction assistance package for Bosnia in 1995. In the context of the Middle East peace process, Canada has been closely involved with the Bank's efforts to mobilize resources for the West Bank and Gaza. Through such co-operation, Canada's influence can be leveraged beyond what could be achieved bilaterally.

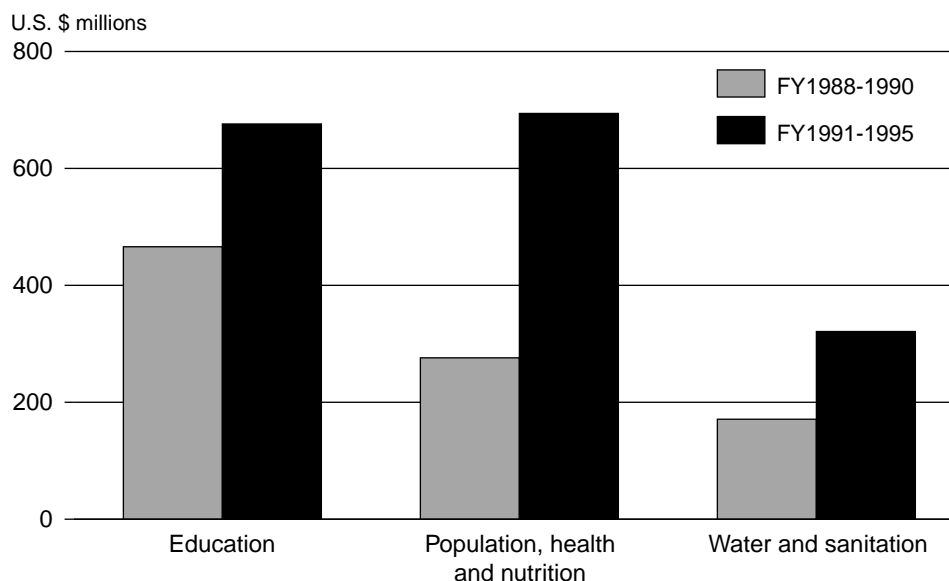
- Canada benefits from the role the World Bank plays in bringing together donors for Consultative Groups (CGs) to provide assistance to specific countries in need. Through CGs, donor countries are able to co-ordinate their policy advice and operational programs to provide more coherent advice to borrowers and to maximize the impact of their operations. Also beneficial is the close collaboration among the Bank, CIDA and other donors on major international programs, such as the Special Program of Assistance for Africa and the Global Environment Facility.
- Canadian aid agencies, including especially CIDA, draw heavily on the Bank's research and policy work to enrich their understanding of international development. A wide variety of CIDA programs also benefit significantly from direct access to Bank staff and expertise.
- Participation in the Bank affords an opportunity to influence international development policy issues of concern to Canadians. Input into the Bank's annual research report, the World Development Report, is one way in which Canada can influence global discussions on poverty, labour, health and the environment. Another specific and important example of this in 1995 was the establishment by CIDA and the World Bank of a joint Working Group on Poverty.
- Finally, Canadian companies and individuals enjoy substantial procurement benefits from our membership in the World Bank Group. Cumulative disbursements on IBRD and IDA loans for Canadian goods and services totalled more than three billion U.S. dollars by the end of fiscal year 1995.

Canada's Priorities at the World Bank

Developmental priorities

Despite considerable progress in improving living standards world-wide, over three billion people remain in dire poverty. Canada has long been a key player in international efforts to assist the poorest and strongly promotes poverty reduction as the key priority of the World Bank. The Bank has taken an increasingly sophisticated (or "integrated") view of poverty reduction in recent years; it has recognized that poverty reduction cannot be addressed in isolation. Private sector development, good governance and environmentally sustainable policies are just a few of the factors which need to be considered in designing strategies to help improve the living standards of the poor in member countries.

Lending for the social sectors has been a focal point of the Bank's poverty-reduction efforts in recent years. Human resource development lending, particularly for primary health and education, has become increasingly important; it has increased from an average of about 5 per cent in the 1980s to about 15 per cent over the past three years. The Bank is now the world's single largest source of financing for investment in human capital.

Increase in IDA Social Sector Lending

Private Sector Development: Canada has encouraged an increasingly co-ordinated approach to private sector development within the Bank Group over the past year. This reflects the growing recognition world-wide of the critical role played by the private sector in supporting longer-term sustainable development. The Bank supports about \$25 billion of private-sector finance a year; the Bank also leverages about \$4 billion in private investment a year through "financial intermediation" loans it makes of about \$2 billion a year.

The Bank introduced, or put greater emphasis on, new financial techniques in 1995 to assist in private sector development. For example, the Bank is placing greater emphasis on using loan guarantees in its lending activities. An estimated U.S. \$200 billion is currently spent by developing countries on infrastructure alone – an amount far above the capacity of governments and international agencies to finance. Such long-term funding volumes can only be supported by greater reliance on financing from the private sector. Guarantees are one important means of ensuring this flow of resources. The Bank is increasingly using this device to increase developing countries' access to international and domestic capital markets.

Another example of the private sector emphasis in development is the growing impact of micro-credit operations (loans of relatively small amounts of money made to the poor by grass roots organizations such as the Grameen Bank in Bangladesh). For a small investment, these organizations have been successful in improving the living conditions of the poor, particularly women in developing countries. Evidence from these operations is compelling; not only does it show that the poor are capable of helping themselves, given equal opportunities, but it shows that the poor can be very good credit risks. The success of these initiatives has led the World Bank, along with other donors, including Canada, to establish the Consultative Group to Assist the Poorest (CGAP) in order to augment the resources of micro-finance institutions.

Consultative Group to Assist the Poorest (CGAP)

The Executive Board authorised the Bank to participate in the CGAP in March 1995. This group has three key objectives:

- *to increase the level of resources available to the poor in developing countries through micro-finance programs;*
- *to provide donors with a vehicle to disseminate and exchange information and lessons of experience on micro-finance; and*
- *to improve donor co-ordination in the provision of these services.*

The CGAP seeks to strengthen the ability of micro-finance organizations, with a proven track record, to provide assistance to the poor. The World Bank contributed \$30 million to this fund; other donors, including Canada, contributed a total of \$70 million.

Good Governance: Canada has pressed the Bank to become more active in addressing issues of good governance in developing countries over the past year. The World Bank's response has generally been positive. Bank staff now encourage more effective management of public expenditures and more participatory and open approaches in decision-making in borrowing countries. However, the issue of how to reduce unproductive expenditures, particularly excessive military expenditures, remains a particular concern of Canada, and is an area where further emphasis would be welcome. At a time of scarce donor resources, the Bank's clients can ill afford to waste resources on unproductive spending. The Bank needs to give greater consideration in its lending decisions to a borrowing government's performance on reducing unproductive expenditures.

Environmentally Sustainable Development: Canada has long been a vocal advocate of the need for the Bank to better integrate environmental considerations into its operations and is now a keen supporter of the Bank's efforts. The establishment of the Environmental Sustainable Development (ESD) vice-presidency in 1993 has been instrumental in supporting this objective. In 1995, an important environmental review of the Bank's lending portfolio following the UN Conference on Environment and Development (UNCED) was undertaken. This review will help ensure that the Bank's future lending is environmentally sound.

Transparency and accountability

Transparency and accountability are fundamental to ensuring the longer-term sustainability of the Bank Group's operations. Canada has been a major proponent of increased openness at the Bank. The Bank has responded to concerns from shareholders by making public a growing number of documents on operations, both from IBRD/IDA and from the IFC.

How to Access Information from the World Bank

The World Bank's Public Information Centre, which became operational in early 1994, provides a wide range of Bank documents, including:

- *Project Information Documents (PIDs),*
- *Staff Appraisal Reports (after approval by the Board of Executive Directors),*
- *Country Economic and Sector Work Documents and Sectoral Policy Papers,*
- *The Annual Report and the World Development Report,*
- *The Monthly Operational Summary and International Business Opportunities,*
- *Environmental Data Sheets, Environmental Assessments, Environmental Analyses, and Environmental Action Plans,*
- *World Debt Tables,*
- *Operation Evaluation Department Précis.*

The Public Information Centre is located at 1776 G Street, N.W., Washington, D.C.20433. Telephone: (202) 458-5454. E-mail address: pic@worldbank.org. Additional up-to-date information is also available on the Internet (<http://www.worldbank.org>) in the following categories: general facts; current events; research; Inspection Panel; and new developments.

Transparency also requires better consultation with beneficiaries. Canada and other donors have pushed the Bank and borrowing countries to find ways to improve consultations with local peoples in beneficiary countries, not only in the design and implementation of projects, but also in the preparation of key policy documents such as country assistance strategies. In 1995, about one-third of the Bank's projects benefited from consultations with a range of interested parties in beneficiary countries.

Canada was one of the major supporters of the work of the Inspection Panel over the past year. The Inspection Panel was created to help the Bank become more accountable to stakeholders with concerns about the impacts of individual projects.

Accountability and the Inspection Panel

An Independent Inspection Panel opened for business in September 1994 to review whether Bank projects adhered to the Bank's own policies and procedures. The three-member Panel investigates complaints from those impacted by Bank projects. The Panel investigates to ensure that the complaint is valid and then passes its findings on to the Executive Board for final decision.

One of the more contentious projects investigated by the Panel in 1995 was the Arun III hydro-electric dam project in Nepal. The Panel unanimously concluded that there were violations of IDA policy and recommended a further in-depth investigation that was subsequently authorized by the Executive Board. On the basis of the Inspection Panel's final report, the President of the Bank took the decision to cancel the project.

Getting Results

Understanding the development impact of the Bank's operations is crucial to ensuring that the Bank's policy objectives are being met. Shareholders have come to realize that objective development impact indicators are critical to ensuring that funds are being used effectively. Discussions on how to develop such indicators have taken place in IDA, the Multilateral Development Bank Task Force (described later) and within the Executive Board.

In response, the Bank Group has begun developing a series of sectoral impact indicators. The complexity of the methodology, and the need for continual consultation within the Bank Group and with other donors, has made this a slow process. But consensus is emerging on the appropriate methodology and development indicators are expected to be incorporated into Bank operations over the next year.

Involving NGOs in decision-making

NGO involvement is now firmly rooted in the Bank's operations. About 40 per cent of Bank projects across all major sectors included some form of NGO participation in fiscal year 1995. NGOs have increasingly participated in the design stage of project preparation as well as in the implementation phase. The Bank has recently started to compile a *List of World Bank-Financed Projects with Potential for NGO Involvement*, which includes a number of upcoming Bank projects seeking NGO involvement. NGOs are also playing a stronger role in the Bank's economic and sector work, particularly in working with borrowing countries on the preparation of National Environment Action Plans and poverty assessments. NGOs' central role in the Global Environment Facility (GEF) is also noteworthy.

One key venue for ongoing dialogue is the NGO World Bank Committee. Membership consists of senior Bank managers and 26 NGO leaders from around the world (15 are from developing countries). Canada's current representative on this committee is Ruth Rempel from the Inter-Church Coalition on Africa. NGOs have also participated in a broad range of other discussions, including on IDA and the MDB Task Force. The Bank hosted four seminars with NGOs at the Social Summit on issues such as investing in people, collaboration with NGOs in the social sector, beneficiary participation and the challenges of development.

Here in Canada, NGOs have participated in a regular series of inter-departmental meetings following the Halifax Summit. This consultation has proven useful for both sides in advancing Canadian interests at the Bank.

Key Developments in 1995

The Halifax Summit: 1995 was a key year for Canada in the international arena. Canada was the host of the Halifax Summit that brought G-7 leaders together to examine critical international economic and financial issues. One of the major issues for discussion was reform of the international institutions, including the World Bank. G-7 leaders, while recognizing the continuing importance and contribution of the IFIs, felt that the IFIs have not always kept in step with the rapidly changing world economy. Leaders recommended a series of initiatives to improve the efficiency and effectiveness of the international system of institutions.

Multilateral Development Bank Task Force: The Task Force on Multilateral Development Banks, established in late 1994 by the Development Committee, completed its review of the multilateral system of development banks in early 1996. In line with the recommendations of Halifax, the two major objectives of the Task Force were:

- to assess the implications of economic change for the development priorities, instruments, operations, and management of the five principal MDBs, and to consider whether improvements could strengthen their impact on the development process; and
- to evaluate procedures and practices for co-ordination among the MDBs and other members of the development community, and consider whether it is possible to make any improvements on a regional, country or sectoral basis.

The Task Force released its report to Governors in March 1996, reaffirming the continuing relevance of the MDBs and the importance of their emphasizing an emphasis on poverty reduction and private sector development. Major recommendations of the report focus on ways to improve co-ordination at the country level, both at the operational level of the MDBs and at the level of shareholders. For example, MDBs should be encouraged to develop common criteria and practices in evaluation of the results of development projects.

The Social Summit: The World Summit for Social Development in March 1995, was an important step in signalling a reorientation of the Bank's approach to social support in development. At the Summit, the Bank announced plans to increase social sector lending by 50 per cent over the next three years. Some \$15 billion was committed over this period for basic social needs and a further \$5 billion for water supply and sanitation programs.

IDA 11 Negotiations: Throughout the year, Canada and other donors participated in the negotiations of the 11th Replenishment of the International Development Association (IDA 11). Negotiations concluded in Tokyo in March, 1996. (Further details are provided later in this report.)

Administrative Efficiency and Cost Effectiveness

Ensuring the efficiency and the effectiveness of the Bank's operations has long been a key objective of Canada. Canada, like many other donors facing fiscal restraint, expects institutions of which it is a member to follow fiscally responsible practices. Canada and other shareholders have been pleased by the Bank's response to these concerns; measures have been introduced to cut the Bank's administrative budget by more than 10 per cent in real terms over fiscal years 1996 and 1997.

But efficiency and effectiveness entail more than just budget-cutting. They require setting clear priorities and being more efficient and strategic in the delivery of services. The Bank needs to operate in those areas where its assistance is needed and where it has a clear comparative advantage. It needs to reconsider areas where the private sector or other MDBs may be better placed to provide assistance. Over the past year, the Bank has undertaken a major review of its activities and has taken steps to streamline its operations.

Managing Canada's Interests at the World Bank

The Minister of Finance, as Canada's Governor of the World Bank, is responsible for the management of Canada's interests at the Bank. The Minister exercises his influence through exchanges of views at the Development Committee and Annual Meetings and through periodic discussions with the President of the World Bank. For example, at the Annual Meetings in 1995, Governors had an open exchange of ideas on multilateral debt and IDA. The president of CIDA is Canada's Alternate Governor for the World Bank.

The day-to-day handling of Canada's diverse interests at the Bank is delegated by the Governor to the Executive Director, currently Mr. Len Good. Mr. Good is one of 24 Executive Directors; he represents Canada, and other countries (Ireland and eleven Caribbean countries) at the Executive Board. The Board is currently made up of 24 Executive Directors; 12 are from developing and 12 from developed countries.

One of the important functions played by Mr. Good is his oversight of the Bank's operations through his membership on the Committee on Development Effectiveness (CODE), which was established in 1994. The Committee's mandate is to assess the development effectiveness of Bank operations. CODE examines the full range of Bank operations, including most recently the Bank's efforts in support of financial sector reform and agricultural credit, non-lending services (economic analysis, technical assistance), and the restructuring of poorly performing projects in the African and Russian portfolios.

The Office of the Canadian Executive Director is one of eight members of CODE and also the chair of the CODE Sub-Committee, which examines project implementation in more detail. The Canadian office has actively participated in CODE with a view to understanding better the difficulties which Bank staff encounter in project implementation and the challenges facing staff in being responsive to the needs of locally affected communities in developing countries. Emerging from this effectiveness evaluation are changes in Bank procedures, and occasionally, in the Bank's general approach to project implementation.

Canada's Voting Record at the Board

Due to the consensus-seeking nature of the Executive Board, there is rarely an occasion when decisions are taken to a vote. Encouraging efforts to reach consensus among Board Members is of prime importance. Occasionally, however, matters are taken to a vote. Over the past year, Canada voted against three proposals: 1) a request for salary increases for Staff; 2) a request for salary increases for Executive Directors; and 3) an IFC proposal (to invest in Moody's Emerging Market Data Base) that had no incremental development benefits and where the bulk of activities would be outside developing countries.

While votes are rare, Canada and other shareholders do raise concerns and questions about the Bank's operations at the Board and even before issues are presented at the Board.

Canada's Office at the World Bank

In addition to the Executive Director, the office has two Canadian advisors and one assistant. These officers consult with the Canadian government – not only with the Department of Finance, but also with CIDA and the Department of Foreign Affairs and International Trade. Such consultations are the main way that Canada's policy advice is channelled to the Executive Director and through him to the World Bank.

One of the key roles of the office is to provide assistance to Canadian business people. While the Bank provides significant procurement opportunities, it is a large organization with an opaque structure that may be difficult for newcomers to navigate. One of Canada's advisors, along with the Canadian Embassy in Washington, assists in providing advice and information on how to do business with the Bank. (More details are provided below in the section on Procurement).

Another point of contact for Canada is the Bank's External Affairs Department. This Department has designated a person responsible for liaison with the governmental and NGO community in Canada. This person assists in providing information about the Bank and in bringing Bank personnel to Canada for seminars and presentations on key topics of mutual interest.

Structure of the Executive Director's Office

Executive Director: Mr. Len Good

Canadian Procurement Advisor: Mr. Greg Ebel/Mr. François Pagé

Canadian Advisor: Ms. Lesley Boucher

Canadian Assistant: Mr. Michael Jay

Telephone: (202) 458-0082; facsimile: (202) 477-4155

Address: D-12-081, 1818 H St. N.W. Washington, D.C. 20433 USA

Canadian Procurement at the World Bank

Canadian companies and individuals working in the area of international development often provide supplies, equipment or services to projects financed through the World Bank. Traditionally, Canadian expertise in the power, environmental, engineering, human resources, telecommunications, financial and transportation sectors has led to procurement opportunities for Canadian firms on developing country projects around the globe.

To date, Canadian companies and individuals have benefited from over U.S. \$3.0 billion in World Bank financed procurement (see Annex 4), which represents a cumulative return of about ninety cents to Canadians for each dollar contributed from the Canadian government's budget. For the Bank's fiscal year ending June 1995, disbursements to Canadian firms reached U.S. \$171 million, while new contract awards amounted to over U.S. \$ 110 million. Canada's performance in winning consulting contracts has been strong, ranking fourth overall and first on a per capita basis. As at other international financial institutions (IFIs), however, Canadian firms have been less successful at winning contracts for goods and equipment, which account for four-fifths of total disbursements.

Belief that Canada could do much better on procurement at the IFIs led to the creation of the Interdepartmental Task Force on IFI Procurement, with representation from Industry Canada, Canadian Commercial Corporation (CCC), CIDA, the Export Development Corporation, Foreign Affairs and International Trade Canada and the Department of Finance. This group's report, released in June 1995, outlined a strategy to enhance the competitiveness of Canadian firms bidding for IFI contracts.

One conclusion of that report was that CIDA might improve Canada's procurement results at the IFIs if more joint financing of projects were undertaken – in effect using a relatively small amount of Canadian money to “leverage” the much larger resources of the IFIs. An interdepartmental mission to Washington in April 1996 followed up on this recommendation and identified eight World Bank projects in Africa and Asia where CIDA will provide some \$55 million for cofinancing with the Bank.

The task of implementing the Task Force's recommendations has been assigned to the Capital Projects Action Team (CPAT), an interdepartmental group. As a result, government efforts to assist Canadian firms are now better co-ordinated. However, this initiative will only be counted a success if it leads to better results for Canadian firms in securing IFI procurement projects.

Trust Fund Activities

A significant source of funds to facilitate increased Canadian participation in World Bank projects are the consultant trust funds supported by CIDA and administered by the World Bank. These are used to introduce new Canadian consultants to the Bank, as well as to encourage the Bank to undertake activities in areas of priority to Canada. In June 1995, CIDA concluded a new agreement with the World Bank, the Cofinancing, Technical Assistance and Consultant Trust Fund Framework Agreement, to govern all its trust fund arrangements with the Bank. These funds lead directly to contracts for Canadians in the feasibility, assessment and design of development projects.

In 1995, CIDA replenished (with C\$19 million) and redesigned its Canadian Consultant Trust Fund (Country Specific), which supports Canadian consultants involved in the identification, preparation and implementation of bank-financed projects in 14 identified developing countries. CIDA and Environment Canada also negotiated the new Canadian Consultant Trust Fund for the Global Environment with the World Bank. For further information on these and other Canadian trust funds at the World Bank, please contact Mr. David Brown, Commercial Counsellor at the Canadian Embassy in Washington (telephone: (202) 682-7788; facsimile: (202) 682-7789).

Canadians can also access Bank funds through the Project Preparation Facility (PPF), the Global Environmental Facility (GEF), and the Policy and Human Resources Development Fund (PHRD).

**Canadian Success Stories:
Winning Contracts at the World Bank**

- **Babcox and Wilcox (Canada)** will supply boilers and steam generation equipment for the Yan Zhou Power Project in the People's Republic of China, financed with World Bank support. The contract was awarded in December 1994, and has a total value of U.S. \$155 million.
- The vigorous efforts of the **Foundation Company of Canada Ltd**, of Toronto, Ontario, have paid off in an invitation to participate in a joint venture with Continental Construction of New Delhi in a major hydro-electric project along the Satluj river in India. The World Bank is financing U.S. \$437 million of this project.

International Finance Corporation

Canadian firms benefit from the Bank's private sector financing arm, the International Finance Corporation (IFC). For example, in 1995, Cameco of Saskatchewan and IMGold of Toronto were involved in projects in Kyrgyz Republic and Mali. Canadian banks also participated in IFC private sector projects through the IFC's loan syndication program. This program facilitates access to commercial debt financing for IFC-sponsored projects. A strong relationship is developing between the IFC and Canadian commercial banks.

Learning about opportunities

To further advance Canadian interests at the World Bank and to improve Canadians' understanding of available opportunities, Canada's Executive Director, along with World Bank staff and members of the other regional development banks, travelled across Canada in 1995, holding seminars on IFI procurement opportunities.

Canadian firms who are interested in winning World Bank financed contracts are urged to attend monthly business briefings (held on the first Thursday of each month) at Bank headquarters in Washington.

Both the Canadian Embassy in Washington, through the Office for Liaison with International Financial Institutions (OLIFI) (202-682-7788), and the Canadian Executive Director's Office at the World Bank (202-458-0082), work to assist Canadians and Canadian firms seeking to participate in World Bank-financed projects. The range of opportunities is wide – a power project in China, an environmental assessment in Peru, or a privatization initiative in Russia are examples. The OLIFI and the Canadian ED's Office at the World Bank encourage Canadian companies to contact them if they are interested in competing for procurement contracts.

Canada's Financial Participation

IBRD

Canada's share of the IBRD capital is approximately 3 per cent. A relatively small proportion of this capital contribution is required to be "paid in" – about 6 per cent overall, but just 3 per cent for the latest capital contributions. The remainder is "callable", in the unlikely event that the IBRD needs it from member countries. Periodically, the IBRD replenishes its capital through General Capital Increases (GCIs). The IBRD's last such capital increase (GCI III) was an amount of \$76.5 billion. Canada was allocated 19,655 new shares valued at \$2.37 billion. The paid-in portion of these shares is \$71.1 million. These shares were subscribed over a five-year period ending in 1993. As of June 30, 1995, Canada's cumulative subscriptions to the IBRD's capital stock was \$5,404 million (44,795 shares), of which \$335 million has been paid-in.

IDA

IDA provides financial assistance to the poorest developing countries on very favourable terms (long repayment periods and low interest rates) and, unlike the IBRD, is funded by grants from donors. The IDA 10 agreement reached in December 1992 resulted in a SDR 13 billion replenishment (U.S. \$18 billion). This will finance IDA's lending program over the three-year period to June 30, 1996. Canada committed to a share of 4.0 per cent of the replenishment, at a cost of C \$829 million. To meet these obligations, Canada issued three demand notes, one per year in 1993, 1994 and 1995. Each of these notes are then encashed over an eight-year period. To the end of fiscal year 1995, Canada's cumulative contributions to IDA (subscriptions and contributions) were the equivalent of U.S. \$3,979.5 million (including Special Fund contributions).

As noted earlier, in the section on Key Developments in 1995, Canada participated in negotiations for the IDA 11 replenishment which were concluded in March 1996. Total funding for IDA 11 will amount to about U.S. \$22 billion. Donor resources account for about U.S. \$11 billion of these resources, with the remainder coming from sources such as IDA 10 carry-over and credit repayments. Outstanding IDA 10 arrears made it impossible for the USA to contribute to the first year of a three-year funding package. Therefore, a one-year Interim Fund was arranged for IDA's fiscal year 1997, to which all donors but the USA will contribute. The USA is only able to commit to the two-year IDA 11 fund which will begin in fiscal year 1998. Canada is taking a 3.5 per cent share of the Interim Fund and a 3.75 per cent share of the two-year IDA 11.

IDA 11 Priorities

Rather than recommending new policy objectives, the IDA 11 negotiations focused more on ensuring that the Bank's policies of assistance to the poorest countries are more effectively implemented. The IDA 11 Agreement places particular emphasis on improving the quality of country assistance strategies, the Bank's major vehicle for determining the size and composition of lending programs targeted to specific countries. Three critical recommendations came out of the negotiations:

- *focus more on the impact of the Bank's operations, particularly on the poor, through the development of impact indicators;*
- *ensure sufficient resources continue to be available for the poorest countries, particularly those in Sub-Saharan Africa. However, underline that resources should be allocated first and foremost on the basis of performance;*
- *encourage greater beneficiary participation in the preparation of Country Assistance Strategies (CASs).*

A major Canadian priority in the IDA 11 negotiations was to ensure that significant resources continue to be directly targeted to the poor through IDA's Program for Targeted Interventions (PTI). IDA's lending for PTI has increased steadily over the IDA 10 period and was more than 50 per cent of total investment lending in fiscal year 1995. Canada was successful in convincing IDA to maintain the priority on PTI.

IFC

The IFC's most recent General Capital Increase was approved in May 1992. Under this GCI, Canada can subscribe to as many as 35,366 new shares, valued at \$35.4 million. Payments for these shares are made over a five-year period. As of June 30, 1995, Canada's cumulative subscription to the IFC amounted to \$67.2 million, all of which was paid in. This represents about 3.6 per cent of IFC's total capital.

MIGA

The Multilateral Investment Guarantee Agency (MIGA) was established in 1988 to encourage direct foreign investment in developing countries by protecting investors from certain non-commercial risks. Canada took up its subscription to MIGA's capital stock in 1988. Of the \$32.1 million subscription, \$6.4 million has been paid in, evenly divided between cash and demand notes. Canada's share of MIGA's capital is 2.7 per cent.

Future Challenges

The 50th anniversary of the Bretton Woods Institutions and the Halifax Summit in 1995 focused the world's attention on the issue of IFI reform, including reform of the World Bank. This review was not limited to donors and Northern Hemisphere NGOs and academics; borrowing member countries have their own concerns with and suggestions to improve the Bank's activities.

As the Bank continues its efforts over the next year to bring about change, it will be focusing on a number of areas of interest to Canada, including:

- Developing mechanisms to co-operate better with traditional and non-traditional partners, either other MDBs or borrowing members. One of the key components of President Wolfensohn's agenda for change is to reach out more to outside organizations, including NGOs, community groups, multilateral institutions and private foundations, in order to create a greater sense of ownership of the Bank's programs.
- Working towards becoming more results oriented, through understanding better the impact of Bank operations on the ground. The Bank is in the process of developing impact indicators and has recently joined an informal working group with other MDBs to come to an understanding on common evaluation methodologies.
- Exploring options for helping countries in post-conflict situations regain their hope and dignity through reconstruction, technical assistance and other forms of support. Such post-conflict countries are in dire need of assistance, particularly in the area of reabsorbing previous combatants in the civilian work force and in creating new jobs. There is also a need to reconstitute social services and build (or rebuild) social safety nets.
- Finding ways to work in a climate of increasingly scarce concessional resources. The recently concluded IDA 11 negotiations shows that donors are no longer able to provide continually increasing concessional resources. Priority in the use of concessional resources will have to be given to those countries most in need that do not have access to private capital.
- Responding to the special challenges posed by such issues as multilateral debt (see below). Canada and other donors recognize that a number of the poorest countries' debt burdens make it difficult for them to move to a path of longer-term sustainable development.

JOINT ISSUES

Overview

As the previous sections have demonstrated, the IMF and the World Bank are important institutions for Canada, each playing a unique role in the international economic and financial system. It can be interesting to examine these two institutions (sometimes referred to as the “Bretton Woods sisters”) jointly, since so many of their activities are complementary. This was the case with the “Graham Report”, discussed below, prepared by the House of Commons Standing Committee on Foreign Affairs and International Trade.

In addition, there are areas where the mandates of the two Bretton Woods institutions overlap, or where there is a requirement for close co-operation and co-ordination of activities. Indeed, at the Halifax Summit, G-7 leaders asked that efforts be made to increase co-operation and co-ordination between the IMF and the World Bank. The heads of both institutions have put considerable effort into fulfilling that objective. Two particular examples, the joint preparation of a proposed program of assistance for highly indebted poor countries and co-operation in post-conflict situations are examined below.

The “Graham Report”

In the run-up to the G-7 Summit in Halifax, the Standing Committee on Foreign Affairs and International Trade, chaired by Bill Graham, issued a report on international financial institution (IFI) reform entitled *From Bretton Woods to Halifax and Beyond: Towards a 21st Summit for the 21st Century Challenge*.

The report contained a number of recommendations setting out priority objectives for:

- redefining essential future roles for the Bretton Woods institutions and making them as efficient and democratically accountable as possible;
- reforming policies and practices to improve the effectiveness of the institutions in reducing global poverty and supporting sustainable development; and
- reviewing ways to increase stability in international capital and currency markets.

The following October, the Ministers of Finance and Foreign Affairs tabled the Government’s Response in Parliament. It noted that the general thrust of the Committee’s recommendations was consistent with the direction that Canada and other G-7 countries have been urging the Bretton Woods institutions to take. The Halifax Summit, for its part, provided the G-7 an opportunity to energize a number of items on the IFI reform agenda.

More specifically, the Response built on the Prime Minister's assertion that the Bretton Woods Institutions "have evolved in a positive way over the years and adapted to the new international realities". This judgement was echoed at Halifax by G-7 leaders in the assertion that the "international financial institutions have demonstrated an exceptional degree of flexibility in adapting to changing demands". Nevertheless, G-7 leaders at Halifax also noted that "a number of areas remain where improvements are both possible and desirable".

This suggested the need not for a major overhaul of the Bretton Woods system, but for a refocusing of a number of activities and a strengthening of others. In effect, while the Bretton Woods Institutions were not perfect, they worked well together and, with some necessary course adjustments, could meet the challenges of the evolving global economy. It was within this framework that the Government's Response to the SCFAIT Report described Canada's efforts in the pursuit of IFI reform.

Copies of the Government's Response can be obtained by contacting the International Finance and Economic Analysis Division of the Department of Finance at (613) 943-1643.

Post-Conflict Situations

At the Halifax Summit, G-7 leaders called for the "Bretton Woods institutions and the UN to establish a new co-ordination procedure, supported as necessary by existing resources, to facilitate a smooth transition from the emergency to the rehabilitation phase of a crisis, and to co-operate more effectively with donor countries".

This action was intended to facilitate the provision of assistance to countries emerging from political turmoil, civil unrest, or international armed conflict. While humanitarian assistance is often available during periods of conflict, a gap has been identified in the provision of assistance after the cessation of hostilities and before adequate infrastructure is in place to permit regular lending through the IFIs.

In September 1995, the IMF adopted a proposal to broaden the scope of its policy on emergency assistance to include post-conflict situations. This proposal identified the Fund's comparative advantage to be the provision of technical assistance and policy advice to post-conflict countries such as Bosnia and Herzegovina, in the establishment of a sound macroeconomic framework. Such efforts, by restoring economic stability, could act as a catalyst for greater and more effective assistance from other sources. Further, while technical assistance and policy advice would form the basis of IMF support, there is potential for the Fund to provide limited financial assistance from its General Resources as a precursor to the establishment of a formal IMF program.

At the World Bank, a proposal for a “Post-Conflict Trust Fund” was considered in January 1996 along with a proposal for the provision of \$150 million in emergency reconstruction financing for Bosnia and Herzegovina. Special efforts were made to find financing support to clear Bosnia’s “arrears” to the World Bank (actually its share of the arrears of the former Yugoslavia) so that Bosnia could become a member of the World Bank. While this World Bank assistance to Bosnia and Herzegovina was agreed, the creation of a “Post-Conflict Trust Fund” was delayed pending further analysis by staff on administrative and financing issues. The Executive Board will consider a subsequent proposal later this year.

The World Bank has, in addition, played a leading role, along with the European Union, in bringing together a wide range of donors to create the necessary financing for reconstruction of Bosnia and Herzegovina. The World Bank has drawn up plans for civilian reconstruction and has taken a leading role in reconstruction efforts on the ground.

Assistance to Heavily Indebted Poor Countries

The debt problems, including debt owed to multilateral institutions such as the World Bank (“multilateral debt”), of heavily indebted poor countries became a major item on the international financial agenda in 1995.

Following a request by the Interim and Development Committees in October 1994, the Executive Boards of both the World Bank and IMF began a review of the “special needs and problems of ... the poorest, most indebted countries”. By early spring 1995, the Bank and Fund had prepared a series of papers on the multilateral debt burden of the most heavily indebted poor countries (HIPC) which concluded that:

- while there was no generalized multilateral debt problem, a number of HIPC) faced significant or potential multilateral debt-servicing problems; and
- these problems needed to be addressed on a case-by-case basis with an enlarged menu of instruments to meet specific country needs.

Existing Mechanisms for Assisting Heavily Indebted Poor Countries

From the World Bank

Regular Lending Through the International Development Association (IDA): *IDA credits are on highly concessional terms, generally with 40-year maturities and 10 years grace;*

Exceptional IDA allocations: *for countries engaged in arrears clearance and comprehensive debt workouts;*

The Fifth Dimension: *supplemental IDA allocations to low-income countries with outstanding IBRD (i.e. non-concessional World Bank) debt that are current on debt service to the World Bank and have IDA-sponsored economic reform programs;*

IDA-Only Debt Reduction Facility: *Financed by IBRD net income and bilateral contributions, the DRF provides grant funding to low-income countries to assist in reduction of medium- and long-term commercial debt that is public, external, non-collateralised and unguaranteed; and*

Technical assistance: *for debt management.*

From the International Monetary Fund

IMF surveillance, technical assistance and programs: *These are prerequisites for official bilateral debt reduction through the Paris Club; and*

Enhanced Structural Adjustment Facility (ESAF): *The Fund's major source of concessional financing for low-income countries undertaking economic reform in the context of an IMF program.*

The Halifax Summit further raised the profile of the issue and gave important impetus to efforts in the Bretton Woods institutions to address the special needs of HIPCs. In particular, G-7 leaders took the opportunity to voice concern about the multilateral debt burden of a number of heavily indebted poor countries and called for:

- the Bretton Woods institutions to develop a comprehensive approach to assist countries with multilateral debt problems through the flexible implementation of existing instruments and new mechanisms where necessary; and
- better use of all World Bank and IMF resources, adoption of appropriate measures in the MDBs and continuation of concessional ESAF lending operations.

Working together, the Bretton Woods institutions responded to this request in the subsequent months, committing themselves at the October 1995 Annual Meetings to the joint preparation of a “comprehensive strategy” to address the problems of HIPC’s for presentation to Governors at the Spring Meetings of the IMF and World Bank in April 1996.

At the Spring Meetings, Governors were presented with proposals prepared jointly by the IMF and World Bank. They endorsed a basic framework for dealing with the debt problems of heavily indebted poor countries. The details of this general framework, however, are still being developed. Governors will be presented with a more detailed plan at the Annual Meetings this fall.

ANNEX 1

Active IMF Lending Arrangements – As of December 31, 1995

Member	Date of arrangement	Expiration date	Amount approved	Undrawn balance
			(million SDRs)	
Stand-by arrangements			20,356.98	6,143.00
Armenia	June 28, 1995	June 27, 1996	43.88	30.38
Azerbaijan	Nov. 17, 1995	Nov. 16, 1996	58.50	49.14
Belarus	Sept. 12, 1995	Sept. 11, 1996	196.28	146.28
Cameroon	Sept. 27, 1995	Sept. 26, 1996	67.60	59.10
Costa Rica	Nov. 29, 1995	Feb. 28, 1997	52.00	52.00
Croatia	Oct. 14, 1994	Apr. 13, 1996	65.40	52.32
El Salvador	July 21, 1995	Sept. 20, 1996	37.68	37.68
Estonia	Apr. 11, 1995	July 10, 1996	13.95	13.95
Georgia	June 28, 1995	June 27, 1996	72.15	49.95
Haiti	Mar. 8, 1995	Mar. 7, 1996	20.00	3.60
Kazakstan	June 5, 1995	June 4, 1996	185.60	92.78
Latvia	April 21, 1995	May 20, 1996	27.45	27.45
Lesotho	July 31, 1995	July 30, 1996	7.17	7.17
Macedonia, FYR	May 5, 1995	June 4, 1996	22.30	9.90
Mexico	Feb. 1, 1995	Aug. 15, 1996	12,070.20	3,312.18
Moldova	Mar. 22, 1995	Mar. 21, 1996	58.50	26.10
Pakistan	Dec. 13, 1995	Mar. 31, 1997	401.85	267.90
Panama	Nov. 29, 1995	Mar. 31, 1997	69.80	61.10
Papua New Guinea	July 14, 1995	Jan. 13, 1997	71.48	38.14
Poland	Aug. 5, 1994	Mar. 4, 1996	333.30	50.00
Romania	May 11, 1994	Apr. 24, 1997	320.50	226.23
Russia	April 11, 1995	Apr. 10, 1996	4313.10	718.85
Slovak Republic	July 22, 1995	Mar. 21, 1996	115.80	83.65
Turkey	July 8, 1994	Mar. 7, 1996	610.50	150.00
Ukraine	April 7, 1995	Apr. 7, 1996	997.30	458.65
Uzbekistan	Dec. 18, 1995	Mar. 17, 1997	124.70	118.50
EFF arrangements			7,625.65	2,640.12
Algeria	May 22, 1995	May 21, 1998	1,169.28	928.48
Argentina	Mar. 31, 1992	Mar. 30, 1996	4,020.25	256.18
Egypt	Sept. 30, 1993	Sept. 19, 1996	400.00	400.00
Gabon	Nov. 8, 1995	Nov. 7, 1998	110.30	88.24
Jamaica	Dec. 11, 1992	Feb. 24, 1996	109.13	22.38
Jordan	May 25, 1994	May 24, 1997	189.30	58.98
Lithuania	Oct. 24, 1994	Oct. 23, 1997	134.55	72.45
Peru	Mar. 18, 1993	Mar. 17, 1996	1,018.10	375.41
Philippines	June 24, 1994	June 23, 1997	474.50	438.00

Active IMF Lending Arrangements – As of December 31, 1995 (Cont'd)

Member	Date of arrangement	Expiration date	Amount approved	Undrawn balance
(million SDRs)				
SAF arrangements			181.75	–
Zambia	Dec. 6, 1995	Dec. 15, 1996	181.75	–
ESAF arrangements			2,995.5	1,203.67
Albania	July 14, 1993	Jul. 13, 1996	42.36	11.30
Benin	Jan. 25, 1993	Jan. 24, 1996	51.89	9.06
Bolivia	Dec. 19, 1994	Dec. 18, 1997	100.96	67.31
Burkina Faso	Mar. 31, 1993	Mar. 30, 1996	53.04	8.84
Cambodia	May 6, 1994	May 5, 1997	84.00	42.00
Chad	Sept. 1, 1995	Aug. 31, 1998	49.56	41.30
Cote d'Ivoire	Mar. 11, 1994	Mar. 20, 1997	333.48	95.28
Equatorial Guinea	Feb. 3, 1993	Feb. 2, 1996	12.88	8.28
Ghana	June 30, 1995	June 29, 1998	164.40	137.00
Guinea	Nov. 6, 1991	Nov. 5, 1996	57.90	11.58
Guinea-Bissau	Jan. 18, 1995	Jan. 17, 1998	9.45	7.88
Guyana	July 20, 1994	July 19, 1997	53.76	35.84
Honduras	July 24, 1992	July 24, 1997	47.46	13.56
Kyrgyz Republic	July 20, 1994	July 19, 1997	88.15	48.38
Lao P.D. R.	June 4, 1993	June 3, 1996	35.19	11.73
Malawi	Oct. 18, 1995	Oct. 17, 1998	45.81	38.18
Mali	Aug. 28, 1992	Mar. 31, 1996	79.24	–
Mauritania	Jan. 25, 1995	Jan. 24, 1998	42.75	28.50
Mongolia	June 25, 1993	June 24, 1996	40.81	16.70
Nicaragua	June 24, 1994	June 23, 1997	120.12	100.10
Senegal	Aug. 29, 1994	Aug. 28, 1997	130.79	59.45
Sierra Leone	Mar. 28, 1994	Mar. 27, 1997	101.90	20.29
Togo	Sept. 16, 1994	Sept. 15, 1997	65.16	32.58
Uganda	Sept. 6, 1994	Sept. 5, 1997	120.51	66.95
Vietnam	Nov. 11, 1994	Nov. 10, 1997	362.40	241.60
Zambia	Dec. 6, 1995	Dec. 5, 1998	701.68	50.00
Total			31,159.79	9,986.79

ANNEX 2

World Bank Loans and IDA Credits – Fiscal Year 1995 (July 1, 1994 - June 30, 1995)

	World Bank	IDA	Total	
	Amount	Amount	No.	Amount
	(millions of U.S. dollars)			
By area				
Africa	80.7	2,203.6	58	2,284.3
East Asia and Pacific	4,592.6	1,101.2	42	5,693.8
South Asia	1,584.8	1,420.9	18	3,005.7
Europe and Central Asia	3,953.8	545.0	58	4,498.8
Latin America & the Caribbean	5,715.3	345.2	52	6,060.5
Middle East & North Africa	925.4	53.3	14	978.7
Total	16,852.6	5,669.2	242	22,521.8
By purpose				
Agriculture and Rural Development	1,153.9	1,495.4		2,649.3
Education	1,280.6		816.2	2,096.8
Energy	2264.0	580.6		2,844.6
Environment	444.1	40.5		484.6
Financial Sector	2,435.4	129.3		2,564.7
Industry	175.0	56.2		231.2
Mining	–	24.8		24.8
Multisector	2,295.0	870.5		3,165.5
Population, Health & Nutrition	451.3	711.0		1,162.3
Public Sector Management	1,411.2	294.4		1,705.6
Social Sector	596.5	51.0		647.5
Telecommunications	325.0	–		325.0
Tourism	–	–		–
Transportation	2,026.8	104.1		2,130.9
Urban Development	1,263.5	186.0		1,449.5
Water Supply and Sewerage	730.3	309.2		1,039.5
Total	16,852.6	5,669.2		22,521.8

ANNEX 3

World Bank Loans and IDA Credits to Developing Countries

	World Bank		IDA		Total	
	No.	Amount	No.	Amount	No.	Amount
	(millions of U.S. dollars)					
By Fiscal Year¹						
Cumulative to 1968	549	11,418.1	116	1,831.8	665	13,249.9
Total 1969-1973	374	8,917.8	273	3,931.6	647	12,849.4
Total 1974-1978	666	24,372.3	376	7,947.4	1,042	32,319.7
Total 1979-1983	711	44,908.0	518	16,368.1	1,229	61,276.1
1983-1984	129	11,947.2	106	3,575.0	235	15,522.2
1984-1985	131	11,356.3	105	3,028.1	236	14,384.4
1985-1986	131	13,178.8	97	3,139.9	228	16,318.7
1986-1987	127	14,188.2	108	3,485.8	235	17,674.0
1987-1988	118	14,762.0	99	4,458.7	217	19,220.7
1988-1989	119	16,433.2	106	4,933.6	225	21,366.8
1989-1990	121	15,179.7	101	5,522.0	222	20,701.7
1990-1991	126	16,392.2	103	6,293.3	229	22,685.5
1991-1992	112	15,156.0	110	6,549.7	222	21,705.7
1992-1993	122	16,944.5	123	6,751.4	245	23,695.9
1993-1994	124	14,243.9	104	6,592.1	228	20,836.0
1994-1995	134	16,852.6	108	5,699.2	242	22,521.8
Total	3,794	266,250.6	2,553	90,077.9	6,347	356,328.5

¹ Fiscal years are those of the World Bank Group (July 1 to June 30).

ANNEX 4

Disbursements by the World Bank and IDA Borrowers – Goods and Services from Canada – to June 30, 1995

	World Bank Amount	IDA Amount	Total Amount
	(millions of U.S. dollars)		
By calendar year			
Cumulative to December 1960	133.5		133.5
1961	8.2	–	8.2
1962	3.7	–	3.7
1963	5.6	7.4	13.0
1964	4.7	1.8	6.5
1965	5.4	2.7	8.1
1966	11.6	5.3	16.9
1967	13.2	14.7	27.9
1968	6.3	7.8	14.1
1969	4.4	11.0	15.4
1970	7.6	1.3	8.9
1971	11.1	2.2	13.3
1972	10.5	2.3	12.8
1973	12.4	5.1	17.5
1974	15.8	8.4	24.2
1975	22.1	15.0	37.1
1976	25.7	10.8	36.5
1977	34.5	4.8	39.3
1978	26.1	5.5	31.6
1979	44.4	8.1	52.5
1980	51.5	7.8	59.3
1981	94.3	14.5	108.8
1982	75.0	17.6	92.6
1983	82.3	26.9	109.2
1984	92.6	54.3	146.9
1985	94.3	39.7	134.0
1986	184.8	46.8	231.6
1987 (Jan.-June)	92.8	23.4	116.2
1988 FY 1988 (to June 30, 1988)	182.1	47.4	229.5
FY 1989	197.0	45.0	242.0
FY 1990	164.0	41.0	205.0
FY 1991	139.0	34.0	173.0
FY 1992	131.0	38.0	169.0
FY 1993	151.0	41.0	192.0
FY 1994	115.0	69.0	184.0
FY 1995	123.0	48.0	171.0
Total	2,315.0	694.0	3,009.0
Per cent of total disbursements	2.28	1.79	2.14
Per cent of FY 1995 disbursements	2.09	1.49	1.88