Report on operations under the bretton woods and related agreements act 1996

Canada

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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 and IDA together are commonly 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 Group of Seven (G-7) countries and Saudi Arabia. Canada's formal participation is authorized under the *Bretton Woods and Related Agreements Act*. Section 13 of the Act states 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 1996. 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 the 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.*
- *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 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 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.

Discussions continued during 1996 at the Interim Committee (which is a twice-yearly meeting of IMF Governors who have representatives on the Executive Board) and the Executive Board on a number of recommendations made at the Halifax Summit (July 1995) 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; and
- ensuring that the Fund has adequate resources for its regular lending operations through consideration of an Eleventh General Review of Quotas, and has adequate liquidity to respond to financial emergencies through a doubling of the resources currently available under the IMF's General Arrangements to Borrow (GAB).

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

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 1996, the total quotas for the Fund's 181 members was SDR[1] 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 low-interest loans with extended repayment periods.

[1] The Special Drawing Right (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 1996, the exchange rate was SDR 1 = C $1.97.

Provision and publication of data. Countries that are capital market borrowers will make comprehensive data available to the public on a timely basis under the IMF's "Special Data Dissemination Standard" established in April 1996. Information on the statistical practices of members subscribing to the new standard is posted on the IMF's Data Dissemination Standards Bulletin Board (DSSB) on the Internet (http://dssb.imf.org). Canada was one of the first countries to subscribe to the new standard, and information on Canada's statistical practices is posted on the DSSB at http://dssb.imf.org/country/cancats.htm. Work on establishing a less demanding general standard for all members will continue in 1997. The new data standards will help better inform markets of financial and economic developments and strengthen Fund surveillance.

New Arrangements to Borrow (NAB). At the Halifax Summit, the Group of Seven asked the Group of Ten (G-10) and other countries with the capacity to support the international monetary system to develop financing arrangements aimed at doubling the amount of resources currently available under the General Arrangements to Borrow (a credit arrangement which backstops the IMF's regular resource base). A G-10 Working Group, chaired by Canada, undertook consultations with potential new participants.

New Arrangements to Borrow

The main features of interest of the New Arrangements to Borrow are:

- *participating countries will make loans to the IMF when supplementary resources are needed to forestall or cope with an impairment of the international monetary system, or deal with an exceptional situation that poses a threat to the stability of the system.*
- *25 countries have agreed to lend up to SDR 34 billion (about C$67 billion) to the Fund in the case of financial emergencies.*
- *Canada's share in the arrangement is 4.1 per cent, in the form of a commitment to provide non-budgetary loans to the IMF from its international reserves.*
- *the NAB will enter into force when it has been ratified by potential participants with credit arrangements amounting to no less than SDR 28.9 billion, including the five members with the largest credit arrangements.*
- *the NAB does not replace the General Arrangements to Borrow (GAB), which will remain in force. However, the NAB will be the first and principal recourse of the IMF in the event of a need for supplementary resources.*

The Fund's Executive Board approved the New Arrangements to Borrow in early 1997 effectively doubling the resources, or credit, currently available to the IMF through the GAB. The resources will be provided by the G-10 countries, other industrial countries and a group of key developing countries judged to have the capacity to support the international financial system. The broader participation in the NAB underlines the changing nature of the global economy and the willingness of emerging economies to share responsibility for managing the international monetary system.

Quota Review

The Fund must have adequate resources to maintain its effectiveness as a monetary institution addressing temporary balance-of-payments problems through support of sound adjustment policies. Reviews of Fund quotas are conducted at regular intervals to replenish its regular or quota-based resources. The last quota increase came into effect in 1992.

Work on the next review of IMF quotas (i.e. the Eleventh General Review) is now underway. The two main issues under consideration are the overall size of the increase and how it should be distributed. Discussions have focused on changes in the world economy since the last increase in quotas and on the possible demand for IMF resources through 2002. The Eleventh Review is currently scheduled for completion by March 1998.

SDR Allocation

For more than two years, the IMF has been examining ways to help redress inequities in the present distribution of SDRs arising from the fact that a number of new members, including Russia and the other former centrally planned economies, have not participated in previous allocations. At its April 1996 meeting, the Interim Committee asked the Executive Board to reach a consensus on an approach that would ensure that all members receive an equitable share of cumulative SDR allocations.

Special Drawing Rights (SDRs)

- *The SDR is an international reserve asset created by the IMF and allocated periodically to its members as a supplement to their foreign currency and gold reserves.*
- *New SDR allocations require a determination by the IMF Board of Governors that there is a global need to supplement existing reserve assets.*
- *SDRs were first allocated to members in 1970. There have been two other allocations, the most recent undertaken in 1981. The outstanding stock of SDRs currently totals SDR 21.4 billion.*
- *Canada has received allocations of SDR 779.3 million.*
- *The 38 members that have joined the IMF since 1981 have received no allocations of SDRs.*

The Fund's Executive Board has subsequently agreed in principle to a one-time special allocation through an amendment of the Fund's Articles of Agreement. The allocations to be provided to member countries will be related to a common "benchmark" of cumulative allocations to present quotas. The Executive Board will hold further discussions to determine the actual benchmark and complete work on the SDR issue.

Co-operation Agreements with the WTO

Globalization of economic activity results in greater interdependence among trade and economic and financial policies. This growing interdependence led the IMF and World Bank in late 1996 to conclude co-operation agreements with the World Trade Organization (WTO). The agreements formalize and build on the collaborative relationships that each had with the contracting parties to the General Agreements on Tariffs and Trade (GATT).

All three organizations are committed, as part of their mandates, to promoting policies that encourage and support trade liberalization. The IMF does this through policy advice and lending to achieve macroeconomic stability and structural adjustment. The World Bank assists in the design and implementation of trade reforms. The WTO provides a forum to enforce the rights and obligations of members in the multilateral trading system.

Such co-operation agreements help achieve greater coherence in global economic policy, help establish a level playing field for global trade, and help assist developing countries adopt policies to support growth and reduce poverty. The agreements strengthen coherence through institutional consultations and the exchange of documents and information.

Transparency and Accountability

Greater information on the activities of the IMF contributes to greater public understanding of the institution. For this reason, Canada has supported measures to enhance the transparency and accountability of the Fund's operations. The Fund has responded to the concerns of members for ensuring transparency by making available significantly 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.

Canada has placed great importance on the establishment of an independent evaluation process which can impartially assess IMF activities on a regular basis. In this context, in October 1996, the IMF launched an evaluation by independent external experts of several aspects of ESAF-supported programs. The evaluation will concentrate on three topics: developments in countries' external position during ESAF-supported programs; social policies and the composition of government spending during ESAF-supported programs; and the effect of countries taking "ownership" of ESAF-supported programs. The experts are expected to complete their report by the end of 1997.

How to Access Information from the IMF

The IMF's Publications Services provide a wide variety of Fund documents on the policies and operations of the IMF as well as world financial and economic developments. These include:

- *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*

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Administrative Efficiency

Canada has been among those urging the Fund to conduct its own administrative operations in a fiscally responsible manner. Canada has regularly 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 numerous measures to streamline Fund activities, constrain administrative expenses and reduce staffing levels.

Lending Developments in 1996

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, enables countries to undertake smoother economic adjustment.

At the end of 1996, the IMF had lending arrangements worth SDR 30.5 billion in place for 61 member countries (See Annex 1). Drawings by these countries in 1996 amounted to SDR 6.0 billion, a considerable drop from the unprecedented level of 1995 when large credits were extended to Mexico and Russia.

Table 1
IMF Resource Flows

	1995	1996
	(in SDR billions)	
Total purchases	18.4	6.0
Of which:		
Stand-by arrangements	14.4	2.5
Extended Fund Facility	2.0	2.6
Compensatory and Contingency Financing Facility	0.0	0.2
Structural Adjustment Facility and Enhanced Structural Adjustment Facility	1.4	0.7
Systemic Transformation Facility	0.6	0.0
Total repurchases	6.6	5.1
Net purchases	11.8	0.9

The IMF and Russia

On March 26 1996, the IMF approved a three-year Extended Fund Facility for Russia worth SDR 6.9 billion (US$10 billion). The program is designed to support the government's medium-term macroeconomic adjustment program aimed at laying the basis for sustained economic growth by reducing annual inflation to single digits and achieving a viable balance-of-payments position. The IMF's loans under the EFF are disbursed on a monthly basis, following a satisfactory review of policy performance and the overall economic situation by the IMF staff.

While progress under the EFF-supported program has been generally positive, some difficulties have been encountered. In the first half of 1996, federal revenues were 40 per cent below target, forcing large spending cuts relative to commitments made in the budget and still leaving higher-than-targeted monthly budget deficits. The recent health problems of President Yeltsin, and the associated uncertainty, has also contributed to delays in introducing key structural reforms.

Despite these setbacks, five years of reform supported by the IMF and other International Financial Institutions (IFIs) have created the foundations of a market economy and set the stage for a resumption of economic growth. Although officially reported real GDP contracted by a further 5 to 6 per cent in 1996, large and growing informal markets have taken root throughout Russia and much of this activity is excluded from GDP. The continuation of prudent macroeconomic policies, together with the completion of the privatization program and other key structural reforms, are projected to lead to a rapid recovery in economic growth over the next few years.

Lending increased substantially under the Extended Fund Facility in 1996 – mainly to Russia. Large credits were also provided to Algeria, Argentina, Ukraine and Venezuela under stand-by and extended arrangements. Lending declined under the IMF's concessional facility, the Enhanced Structural Adjustment Facility.

Use of the Compensatory and Contingency Financing Facility, one of the Fund's other special purpose facilities, jumped substantially owing to a disbursement to Algeria. Access under the Systemic Transformation Facility (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 Finance Canada's Home Page located at http://www.fin.gc.ca.) The Governor of the Bank of Canada is Canada's Alternate Governor of the IMF. The Governor also attends the spring and fall meetings of the Fund.

The management of Canada's interests in the ongoing work of the IMF is delegated by the Governor to the Executive Director, Mr. Thomas A. Bernes, Canada's representative on the Executive Board. Mr. Bernes is one of 24 Executive Directors. In addition to Canada, he represents 11 other countries (Ireland and 10 Caribbean countries) which form a constituency at the Executive Board. Of the 24 members of the current Executive Board, 12 are from developing or transition countries and 12 from industrial 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 advice on IMF issues and Canada's operational interests in the IMF. The Bank of Canada also works closely with the Department of Finance in providing advice on issues of interest to Canada's Executive Director. Other involved departments and agencies include the Department of Foreign Affairs and International Trade and the Canadian International Development Agency (CIDA). Within the Department of Finance, the International Finance and Economic Analysis Division is specifically responsible for conducting analyses and preparing 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 memoranda outlining Canadian positions) or to influence other members in the course of Board discussions. In 1996, 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.

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.

Structure of the Executive Director's Office

Executive Director:	*Mr. Thomas A. Bernes*
Canadian Advisor:	*Mr. Mostafa Askari*
Canadian Assistant:	*Mr. Jeff Chelsky*
Canadian Assistant:	*Mr. Christoph Duenwald*

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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 recorded as 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 the form of demand notes) which are available to the Fund in the event it 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 1996, Canada received SDR 19.0 million on its net creditor position in the IMF.

At the end of the year, Canada's holdings of SDRs amounted to SDR 812.4 million, or 104.2 per cent of our cumulative allocation of SDRs. In 1996, Canada held SDRs in an amount greater than our allocation, and so earned net interest income of SDR 0.8 million[2]. 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.

Table 2
Canada's Financial Position in the IMF

	December 31, 1996	December 31, 1995
	(SDR millions)	
Quota	4,320.3	4,320.3
Fund holdings of Canadian dollars	3,467.5[1]	3,484.2[1]
Reserve position in the Fund	852.8[2]	836.2[2]

[1] In accordance with Fund regulations, at least 0.25 percent 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 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, our reserve position in the Fund is a part of Canada's official foreign exchange reserves.

[2] When a member's holdings of SDRs is greater (lesser) than its cumulative allocation, that member (the Fund) receives interest on the difference.

In 1996, in line with commitments, Canada made further contributions to the IMF's Enhanced Structural Adjustment Facility. 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 1996, loan payments under these arrangements totalled SDR 275.5 million and subsidy contributions equalled SDR 63.4 million.

Canada is also a participant in the General Arrangements to Borrow, the credit arrangement established by G-10 industrial countries to supplement the Fund's regular resources in the event of financial crises. Canada's GAB commitment is the equivalent of SDR 892.5 million. This line of credit has not been used in recent years but continues to provide an important backstop for the Fund's operations in the event of a financial emergency. As noted above, Canada is also committed to participating in the New Arrangements to Borrow (NAB) when the facility becomes effective.

Challenges Ahead

A key challenge for the Fund is to ensure that its mission meets the needs of the changing global economy. In addition, the Fund must continue to provide support to members with balance-of-payments problems, including the heavily indebted poor countries. To meet these challenges:

- The IMF 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. Efforts should be made to better align members' quotas with their relative positions in the world economy.
- 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 heavily indebted poor countries. In addition, further efforts to establish a self-sustained ESAF for the benefit of all low-income countries should continue.
- With the vastly growing importance of capital flows in the world economy, the Fund should critically examine whether it can assume a greater role in encouraging freedom-of-capital movements.

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 180 members and loans and credits to almost 90 developing member countries in fiscal year 1996, 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 concessional assistance and access to world financial markets for development purposes; in addition, it advises on policy issues crucial to improving members' longer- term development prospects. In its 1996 fiscal year, the World Bank provided loans and credits to these countries of over US$21 billion (see Annex 2). In 50 years of existence, it has provided over US$377 billion in loans to the developing world (see Annex 3).

Many of the Bank's members, both developing countries and countries in transition, continue to face a tremendous challenge 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. The World Bank continues to play an important catalytic role in encouraging the use of private capital for development.

Bank Reforms Take Off in 1996

In his second year in office, President Wolfensohn has accelerated his program of far-reaching reforms in all areas of the Bank. Priority has been placed on increasing development effectiveness by enhancing the quality and impact of the Bank's operations. To this end, further steps were taken to make the Bank a more client-focused, better-managed and more responsive organization, better able to meet evolving global challenges. Canada is giving its strong support to President Wolfensohn's efforts to bring about real change at the Bank.

Implementing Change in 1996

During 1996, President Wolfensohn continued his ambitious program of change within the World Bank Group to maximize the institution's contribution to poverty reduction and sustainable growth in developing countries.

- *To better disseminate lessons of experiences across the Bank, the President introduced a fundamental change in the way the Bank operates. Staff were reorganized on the basis of sectoral knowledge networks, rather than staff functions, to ensure better sharing of development best-practices.*
- *To improve the exchange of information with clients, a number of key country programs decentralized their operations to the field. Non-governmental organization (NGO) liaison positions were established in many Bank missions to allow staff to benefit from NGO experience on the ground. Thirty-five such positions were in place by the end of 1996.*
- *To support efforts to improve the Bank's overall portfolio quality, the Quality Assurance Group (QAG) was established in February 1996. This group reviews projects and provides advice and assistance to Task Managers to raise project quality at entry and to improve the management of ongoing projects.*
- *The Bank-wide Portfolio Improvement Program was launched in order to better tie project-specific and systemic portfolio management efforts together. The Bank also introduced new measures to assess the health of its lending portfolio, making it easier to identify problematic projects early enough to permit restructuring.*

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 in discussions with Bank staff, 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.

- 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* (WDR) – provides an important vehicle by which Canada can influence the global debate on poverty, labour, health and the environment. For example, Canada hosted a meeting in Toronto in March 1996 which brought together the Bank WDR team on Transition Economies with members of the Canadian private sector, academic and legal communities to discuss Canada's experience in the former Soviet Union, Central and Eastern Europe, and East Asia.
- 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 have worked closely with the World Bank to assemble an emergency reconstruction assistance package for Bosnia. 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 through its bilateral programs.
- 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 better co-ordinate their policy advice and operational programs to provide more coherent advice to borrowers and to maximize the impact of their operations. Last year, the World Bank participated in 24 separate CGs and donor groups. Also of benefit 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 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.
- Finally, Canadian companies and individuals enjoy substantial procurement benefits from membership in the World Bank Group. Disbursements in fiscal year 1996 for Canadian goods and services totalled US$225 million, bringing total cumulative disbursements to more than US$3.2 billion by the end of that fiscal year.

How the World Bank Group Works

The World Bank Group is made of up of four complementary, but distinct entities: the International Bank for Reconstruction and Development; the International Development Association; the Multilateral Investment Guarantee Agency); and the International Finance Corporation .

The IBRD and IDA (together commonly known as the World Bank) both provide funding for investment projects and for adjustment, or economic reform, operations. However, the IBRD lends funds on commercial terms (slightly above a market interest rate – the London Interbank Offered Rate (LIBOR) to the better-off borrowing members, while IDA provides interest-free credits to the poorest borrowers. The IBRD gets its funds primarily from borrowing on international markets, on the basis of its triple-A credit rating, whereas the IDA receives grant funding from donors (details are provided below). In effect, the IBRD on-lends to borrowing countries at a rate of interest much below that which they could secure on their own borrowings.

The IFC supplements the activities of the IBRD and IDA by undertaking investments on commercial terms in productive private sector enterprises. The IFC provides such services as direct private sector loans, equity investments, resource mobilization and technical assistance. MIGA's mandate complements that of the IFC: it promotes private foreign direct investment in developing countries, primarily through the issuance of insurance against non-commercial risk, such as the risk of currency inconvertability during civil conflict.

Canada's Priorities at the World Bank

Developmental Priorities

Despite considerable progress in improving living standards worldwide, 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; in doing so, 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 (HRD) lending, particularly for primary health and education, has grown in importance; it has increased from an average of about 5 per cent in the 1980s to about

18 per cent over the last five years. Average lending for HRD during this period totalled more than $4 billion annually. The Bank is now the world's single largest source of financing for investment in human capital.

The Bank, and particularly the IDA, has also increased its lending targeted directly to the poor under the Program of Targeted Interventions (PTI). Over the IDA 10 period (fiscal year 1994-1996), PTI grew to 52 per cent of IDA investment lending compared to 41 per cent under the IDA 9 period (fiscal year 1992-1994).

Average Annual IDA Lending for the Program of Targeted Interventions

Type of borrower	FY 92-94	FY 94-96	% Change
		(US $millions)	
IDA-only	751	1,112	48
Blend borrowers	1,183	1,396	18
Total	1,934	2,507	30
Memo items:			
IDA investment lending	4,774	4,793	0
IDA-only[1]	2,353	2,630	12
Blend borrowers[2]	2,421	2,164	-11
PTI's share in Investment lending	41%	52%	

1 These are the poorest borrowers who receive only IDA funding.

2 These borrowers receive a blend of IDA and IBRD funds.

Private Sector Development. Canada has encouraged the increasingly co-ordinated approach to private sector development that has developed within the Bank Group over the past year. The Bank, the IFC and MIGA are now working closely together to provide more integrated private sector support and policy advice. Business innovation programs are now under way in all the Bank's regional offices. This reflects the growing recognition worldwide of the critical role played by the private sector in supporting long-term sustainable development. The Bank supports about US$25 billion of private sector finance a year; the Bank also leverages about US$4 billion in private investment a year through "financial intermediation" loans it makes of about US$2 billion a year.

The Bank put greater emphasis on new financial mechanisms in 1996 to assist in private sector development. The Bank expanded its partial risk and partial credit guarantee programs and integrated these instruments better with its traditional lending activities. These guarantees are particularly important in promoting infrastructure development; an estimated US$200 billion is currently needed by developing countries for 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. The Bank is increasingly using guarantees to increase developing countries' access to international and domestic capital markets.

Another example of the private sector's role in development is the growing impact of microcredit operations (loans of relatively small amounts of money made to the poor by grassroots organizations such as the Grameen Bank in Bangladesh). With 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, but it underlines that they can be very good credit risks. Members of the Consultative Group to Assist the Poorest (CGAP), including the World Bank and Canada, met several times in 1996 to exchange views on best practices and to explore opportunities to augment resources of existing micro finance institutions.

Microcredit: The Consultative Group to Assist the Poorest

Work in CGAP progressed well over fiscal year 1996, with some 57 initial project requests from NGO and microenterprise-funding facilities reviewed and 14 approved for implementation. CGAP also provided training and information services on best-practices to policymakers and practitioners in the field of microcredit. CGAP has several key objectives:

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

Through this work, CGAP seeks to strengthen the ability of microfinance organizations with a proven track record to provide assistance to the poor through a US$30 million facility from the World Bank.

Good Governance. Over the past year, Canada continued to press the Bank to become more active in promoting good governance in developing countries. The World Bank's response has been positive. Bank staff now encourage more effective management of public expenditures and more participatory and open approaches in decision-making in borrowing countries. Canada has been particularly concerned about unproductive expenditures, particularly excessive military expenditures. At a time of scarce donor resources, the Bank's clients can ill afford to waste resources on unproductive spending.

Recognizing this problem, the Bank has recently issued a note “Bank Work on Military Expenditures” for staff guidance. Among other things, the Bank is requesting better information from borrowers on military-related aggregate expenditures to aid in its public expenditure reviews. It is also encouraging to see that a number of countries are seeking Bank assistance in the conversion of military-run industries (China, the Czech Republic and Hungary), while others, including Angola, Ethiopia and Uganda, have asked for help with demobilization and demilitarization.

During the recent IDA negotiations, donors underlined that lending decisions should increasingly be based on a borrowing government’s performance in such areas as reducing unproductive expenditures. The recent IDA review for the 1994-1996 period indicates that lending is, in fact, being linked more closely to country performance.

The Bank’s Economic Development Institute (EDI) has also been using its public sector reform program to build consensus in client countries to work against corrupt practices. With funding from CIDA and other donors, EDI has been working with a variety of local groups in Tanzania and Uganda to heighten awareness of the damage that systemic corruption can cause and of the practical steps for combating it.

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 a keen supporter of the Bank’s recent efforts. The establishment of the Environmental Sustainable Development (ESD) vice-presidency in 1993 has been instrumental in supporting this objective. In fiscal year 1996, the Bank committed US$1.6 billion and leveraged another US$1.6 billion from other sources for 20 new environmental projects. To better support this work, the Bank completed the *Second Environmental Assessment Review: the Impact of Environmental Assessment* which focuses on the quality of EAs and their impact on project design and implementation. This document should assist Bank staff and policymakers in making the EA an even more effective tool in integrating environmental concerns into Bank operations.

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 the IBRD/IDA and the IFC.

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 1996, 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. Since its inception, the Panel has received five formal requests for inspections; it recommended an investigation of one of these, the Rondonia Natural Resources Management Project, in 1996.

Several new initiatives have been taken over the past year to better disseminate information about the Public Information Centre's resources, including a brochure on PIC services as well as an electronic version on the Internet. In fiscal year 1996, the PIC received more than two million requests for information, a fivefold increase over fiscal year 1995. The greatest demand came from the business community.

How to Access Information from the World Bank

The World Bank's Public Information Centre (PIC), 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., U.S.A. 20433.
Phone: (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:
1) general facts; 2) current events; 3) research; 4) Inspection Panel; and 5) new developments.

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 Deputies' discussions, at the Multilateral Development Bank Task Force and within the Executive Board.

A range of sector-specific project-performance indicators have been developed. Currently, 17 sector "first edition" notes on indicators are available, covering the environment, poverty reduction, public sector management and technical assistance. A handbook has also been prepared to assist managers in utilizing the indicators in project design and monitoring.

Performance Indicators: Poverty Reduction

The Wapenhans Report on improving portfolio quality emphasized the importance of developing a better understanding of the impact of the Bank's operations by setting clear performance goals. Since poverty reduction is the Bank's overarching objective, this is one of the key sectors where the Bank has been working to establish meaningful performance indicators.

Three classes of indicators have been developed: (i) input indicators; (ii) process or output indicators; and (iii) impact indicators.

The following provides some simple examples of indicators for a secondary school project for girls.

Input Indicators: number of trainees trained; amount of credit disbursed; numbers of schools to which funds were disbursed.

Process/Output Indicators: number of graduating students; number of facilities installed/repaired.

Impact Indicators: number of girls employed from project schools.

Involving NGOs in Decision-Making

NGO involvement is now firmly rooted in the Bank's operations. President Wolfensohn has been a major catalyst in the Bank's outreach program with NGOs; particular emphasis has been placed on the importance of expanding partnerships with civil society. About 43 per cent of Bank projects across all major sectors included some form of NGO participation in fiscal year 1996. 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 from developing countries). Canada's current representative on this committee is Ruth Remple from the Inter-Church Coalition on Africa. NGOs have also participated in a broad range of other discussions over the past year, including multilateral debt, the IDA, private sector development, as well as the new joint Bank-NGO Task Force on Structural Adjustment. A Bank-NGO working group was also established to examine disclosure and dissemination of Bank information.

Within Canada, NGOs have participated in a regular series of government interdepartmental meetings on multilateral debt, the IDA and microcredit. This consultation has proven useful for advancing Canadian interests at the Bank.

Key Developments in 1996

The Lyon Summit. The 1996 Lyon Summit brought G-7 leaders together to examine critical international economic and financial issues. One of the major issues for discussion was follow-up to the Halifax Summit recommendations on reform of the international institutions, including the World Bank.

Canada/World Bank Poverty Semina. In November 1996, the Canadian government hosted a major seminar in Ottawa on the World Bank's report *Poverty Reduction and the World Bank*, which allowed senior Bank Management to hear directly from interested Canadians on the Bank's progress in working towards its overarching objective of poverty reduction. The report provided an overview of the Bank's experience on poverty reduction and looked ahead at the challenges of better meeting the needs of the poor. Human resource development, particularly primary health and education, were identified as key to improving the access of the poor to economic opportunities.

IDA 11 Negotiations. Negotiations on the 11th Replenishment of the IDA concluded in Tokyo in March 1996. (Details are provided below.)

Partnerships with other International Organizations. Following up on Halifax Summit recommendations, the Bank has increasingly been reaching out to co-ordinate better with other international institutions, including the multilateral development banks (MDBs), the WTO and the United Nations (UN) system. In December 1996, the Bank and the WTO signed an Agreement to formalize co-operation, as part of their joint efforts to better integrate developing countries into the global economy.

The President and the heads of the regional development banks held their first joint meeting in February 1996 and now plan to meet every six months to exchange information and experiences on key development issues. A working group on evaluation methodology has recently been established among the MDBs to better harmonize evaluation standards for assessing operational performance and development results. World Bank co-operation with the UN on data collection and assessment is also expanding, as are joint assistance programs in post-conflict countries.

The World Bank: Emerging as a "Knowledge Bank"

The emergence of a technology-driven global knowledge economy means that economic growth in the 21st century will increasingly depend on a country's ability to build and mobilize knowledge capital to complement physical and financial capital. The increased importance of knowledge capital, combined with the growing importance of private capital investment and technology-driven information flows, poses new challenges and opportunities for developing countries and for the international development community.

In 1996, President Wolfensohn introduced a plan to begin shifting the Bank towards becoming more of a "Knowledge Bank". He initiated an international effort to harness the information revolution for poverty alleviation and sustainable development. He has called for a "Global Knowledge Partnership", a public-private collaboration devoted to helping the world's poor share the benefits of, and become full partners in, the emerging global knowledge economy.

To help launch this Partnership, and to explore specific strategies for mobilizing knowledge capital in support of development, the World Bank and the Government of Canada will co-host a major international conference on "Knowledge for Development in the Information Age" in Toronto from June 22 to 25, 1997.

Administrative Efficiency and Cost Effectiveness

Ensuring the efficiency and the effectiveness of the Bank's operations has long been a key objective of Canada. 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 its role in 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 is developing a "strategic compact" which will better link resource allocation to priority areas.

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 1996, Governors approved an initiative to help the poorest countries with unsustainable debt burdens through the Initiative for Heavily Indebted Poor Countries (further information is provided below). 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 12 other countries (Ireland and 11 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 Office of the Canadian Executive Director is one of eight members of CODE, which examines project implementation and selected policy issues in 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, it is rare that 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 of Executive Directors; and 3) an IFC project that provided funds for the Danish Investment Fund for Central and Eastern Europe. Canada also abstained on the Zambia Economic Adjustment Loan.

Furthermore, Canada and other shareholders frequently discuss issues and raise concerns directly with Management well before projects come to the Board. In this way, a number of projects are significantly modified before final Board approval.

Canada has also developed a strong working relationship with the Economic Development Institute. An existing EDI trust fund, to which Canada contributed, has supported some very innovative work on governance, including work with the Parliamentary Centre in Ghana and a new corruption sensitization campaign for Tanzania and Uganda.

Canada's Office at the World Bank

In addition to the Executive Director, the office has two Canadian advisors and two executive assistants. These officers are in constant communication with the Canadian government – not only with the Department of Finance, but also with CIDA and the Department of Foreign Affairs and International Trade. The Department of Finance co-ordinates Canada's policy advice and channels it to the Executive Director and through him to the World Bank.

Structure of the Executive Director's Office

Executive Director:	*Mr. Len Good*
Canadian Procurement Advisors:	*Mr. Greg Ebel/Mr. François Pagé*
Canadian Advisor:	*Ms. Lesley Boucher*
Canadian Assistant:	*Mr. John Sinclair*

Phone: (202) 458-0082; Fax: (202) 477-4155

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

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 is often difficult for newcomers to navigate. Canada's procurement advisors, along with the Canadian Embassy in Washington, assist in providing advice and information on how to do business with the Bank. (Details are provided below.)

Another point of contact for Canada is the Bank's External Affairs Department which is headed by Mark Malloch Brown. This Department has designated Tim Cullen to be responsible for liaison with the governmental and NGO community in Canada. Mr. Cullen assists in providing information about the Bank and in bringing Bank personnel to Canada for seminars and presentations on key topics of mutual interest.

Canadian Procurement at the World Bank

Canadian companies and consultants 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.

In fiscal year 1996, many Canadian firms continued to benefit from Canada's World Bank membership by accessing procurement opportunities under World Bank financed loans. Fiscal year 1996 disbursements to Canadian companies for the supply of goods and services under Bank loans reached US$225 million, a significant increase over the fiscal year 1995 figure of US$171 million. Disbursements to Canadian companies were divided between consulting (US$57 million), civil works (US$8 million) and equipment contracts (US$159 million).

It is particularly noteworthy that Canadians continue to excel in the consulting field. Canadian consultants win more contracts on a per capita basis than any other supplying nation. As a per cent of disbursements, Canadian consulting firms ranked fourth in fiscal year 1996 among all supplying countries and accounted for more than 6 per cent of total disbursements.

The 1996 results bring cumulative disbursements to Canadian companies to more than US$3.2 billion. The Bank also reports on larger procurement contracts that have been awarded during the year even though project disbursements will occur in the future. In this regard, Canadian firms were awarded US$83 million in fiscal year 1996. Belief that Canada can do even better on procurement at the IFIs led to the creation of the Interdepartmental Task Force on IFI Procurement, with representation from Industry Canada, CIDA, the Export Development Corporation, the Department of Foreign Affairs and International Trade 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 Official Development Assistance 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 C$55 million for co-financing 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 Co-financing, 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 and redesigned its Canadian Consultant Trust Fund (Country Specific), which supports Canadian consultants involved in the identification, preparation and implementation of World 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, contact Mr. David Brown, Commercial Counsellor at the Canadian Embassy in Washington – phone (202) 682-7788, fax (202) 682-7789. Canadians can also access Bank funds though the Project Preparation Facility (PPF), the Global Environmental Facility, and the Policy and Human Resources Development Fund (PHRD).

International Finance Corporation

The International Finance Corporation is playing an increasingly important role in the Bank Group's private sector development activities. As the fastest growing entity within the Bank Group, it has also attracted the attention of Canadian companies and financial institutions that are interested in making direct investments in emerging markets.

In recent years, Canadian mining companies have been the prime beneficiaries of IFC financing and capital mobilization efforts. In 1996, a number of Canadian companies from other key sectors have also started working with the IFC. For example, Nova Corporation and its partners used IFC financing and structuring for their US$400 million gas transmission project in Argentina. Canadian companies in the oil and gas, as well as the telecommunications and financial services, sectors are in advanced discussions with the IFC on investments which should be completed in the coming year.

Canadian Success Stories: Winning Contracts at the World Bank

Every year, small and large companies from across Canada benefit from procurement opportunities financed by the World Bank and 1996 was no exception.

- *Siddus Systems, located north of Toronto, won a contract to supply personal computers to a university in Angola.*
- *Manitoba-based Wardrop Engineering assisted the Philippines government in its Subic Bay redevelopment project by carrying out an impact assessment on an adjacent river basin.*
- *Dreco Energy Services of Calgary won a contract to supply close to US$7 million in oil drilling equipment to Russia in order to assist that country in its oilfield rehabilitation efforts.*
- *Enterprises Vibec Inc. and Hydro-Quebec worked in partnership to supply and install million of dollars in power sector equipment in Haiti.*
- *To improve the land registration and cadastral systems in Russia, the DMR Group of Halifax was awarded a contract to provide training to the responsible government agencies.*

Perhaps the most significant development on the IFC front has been the return of Canadian financial institutions (typically commercial banks) to the IFC loan syndication program. This important program helps to mobilize private financing for IFC projects and provides financial institutions the opportunity to invest in emerging markets. By investing alongside the IFC, financial institutions participating in the syndication program gain access to potential new customers, attain a high yielding asset and, with the presence of the IFC as an investor in these projects, are provided a degree of political risk coverage. In fiscal year 1996, Canadian financial institutions participated in seven loan syndications totalling US$62 million.

Canadian involvement and interest in the IFC has been greatly assisted by a number of trips to Canada in the last year by prominent IFC staff. In April 1996, the head of the IFC, Jannik Lindbaek, met with Canadian businesses, investors, parliamentarians and government officials during a three-day visit to Toronto, Ottawa and Montreal.

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 regional development banks, travelled across Canada in 1996, holding seminars on

IFI procurement opportunities. During 1996, both President Wolfensohn and Mr. Lindbaek, visited Canada and met with senior business leaders to discuss opportunities for Canadian businesses to use Bank Group resources in exporting or investing in developing countries.

Canadian firms, organizations and institutions that are interested in winning World Bank 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 Canadian firms and consultants 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 legal-judicial reform project in Russia are examples. The OLIFI and the Canadian Executive Director'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 in the last capital contribution. 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) in 1988 was for $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, 1996, Canada's cumulative subscriptions to the IBRD's capital stock totalled US$5,404 million (44,795 shares), of which US$335 million has been paid-in.

IDA

The IDA 11 Agreement reached in March 1996 resulted in a US$22 billion replenishment. This will finance IDA's lending program over the three-year period to June 30, 1999.

IDA 11 Priorities

Rather than recommending new policy objectives, the IDA 11 negotiations focused more on ensuring that assistance to the poorest countries is more effectively implemented. The IDA 11 Agreement places particular emphasis on improving the quality of country assistance strategies. Three critical recommendations came out of the negotiations:

- *focus more on the impact of the Bank's operations, particularly on the poorest, 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 sound economic performance; and*
- *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 the IDA's Program of Targeted Interventions, which has been highly successful, as earlier noted.

The three-year package begins with a one-year Interim Fund of about US$3 billion for fiscal year 1997. (The one-year Interim Fund was created because the U.S.A. was unable to participate in the first year of the IDA 11.) Canada committed to a share of 3.5 per cent of the Interim Fund and 3.75 per cent of the two-year IDA 11 at a total cost of C$607 million. To meet these obligations, Canada will issue three demand notes, one per year in 1996, 1997 and 1998. Each of these notes is then encashed over a seven- to eight-year period. To the end of fiscal year 1996, Canada's cumulative contributions to the IDA (subscriptions and contributions) were the equivalent of US$3,987 million (including Special Fund contributions.)

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, 1996, Canada's cumulative subscription to the IFC amounted to $74.3 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 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

Together with his senior management team, and with the support of the Board of Directors, the President has outlined a strategic agenda for the future which elaborates on a number of key themes:

- the need for a "new compact" between donors, investors and recipients to ensure that sufficient resources are available to poor countries that can use these resources effectively and efficiently;
- the need for a broader approach to development which integrates social, cultural and institutional issues that underlie truly sustainable development;
- the need for a new global partnership to create and share development knowledge, with the World Bank utilizing current information technology to share knowledge and development insights with clients and partners; and
- the need to listen more carefully to clients and develop new products to respond better to the increasingly diverse needs of borrowers.

It is important to recognize that these organizational shifts are taking place in the context of a rapidly changing global environment. Total private capital flows to developing countries increased from $44 million in 1990 to $227 million in 1996. But official development finance declined over the same period from $56 billion to $39 billion.

The relative importance of the World Bank as financier has fundamentally changed in several developing countries where the private sector has stepped in to provide necessary financing. Yet, private capital flows to developing countries have not been uniformly distributed. The major challenge for the future will therefore be for the Bank to find more creative ways to meet the increasingly diverse needs of its clients, some of which benefit from greater private capital, but many of which do not.

JOINT ISSUES

Overview

The IMF and the World Bank are important institutions for Canada, each playing a unique role in the international economic and financial system. Nevertheless, there are key 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.

Post-Conflict Situations

War and armed conflict not only threaten national and regional security, they inflict long-lasting damage on economies and set back the development process. The Bank and the Fund have been intensifying their efforts in the area of post-conflict reconstruction to help jump-start affected economies through investment in key productive sectors and re-establishing the necessary conditions to resume trade, savings and domestic and foreign investment.

In 1996, the Bank strengthened its work in Bosnia by funding projects to clear landmines, repair houses, restart electric power generation facilities and establish microcredit financing. In the West Bank and Gaza, the Bank focused on local employment generation through the Emergency Employment Generation Program. In Africa, the Bank is collaborating with the United Nations to facilitate the transition from war to peace in several conflict-torn countries, including Angola, Ethiopia, Mozambique and Uganda, and also is closely monitoring other areas of current conflict in the region.

The Fund has also broadened the scope of its policy on emergency assistance to include post-conflict situations. The Fund is focusing on its comparative advantage in the provision of technical assistance and policy advice to post-conflict countries such as Bosnia and Herzegovina in order to help in the establishment of a sound macroeconomic framework.

Multilateral Debt Relief

In June 1995, at the Halifax Summit, the G-7 countries urged the Bretton Woods institutions to develop a comprehensive approach to address the special problems of the poorest countries with large multilateral debt burdens through the flexible application of existing instruments and the creation of new mechanisms for debt relief. Just over a year later, at the 1996 annual meetings of the IMF and the World Bank, the details of a new debt initiative for heavily indebted poor countries (HIPCs) were endorsed by the Interim and Development Committee.

The primary goal of this initiative (the "HIPC Initiative") is to ensure that HIPCs demonstrating a track record of sustained policy performance are able to achieve overall external debt sustainability, strengthen their poverty reduction programs and permanently "exit" from future debt-rescheduling exercises.

To qualify for exceptional relief, a country must be IDA-only and face an unsustainable debt situation after the full application of current debt relief mechanisms. The sustainability of the debt burden is determined on the basis of the ratio of debt-to-exports and debt-service-to-exports (calculated in net present value terms). A debt-to-exports ratio in the range of 200 to 250 per cent and a debt-service-to-exports ratio in the range of 20 to 25 per cent is judged to be the upper limit of debt sustainability for HIPCs.

The IMF and World Bank have estimated that full implementation of the initiative could require debt relief of about US$5.5 billion, of which more than $3 billion would come from multilateral institutions. Recently, the IMF agreed to make initial financing of SDR180 million available from ESAF resources. The World Bank has also agreed to an initial contribution of US$500 million out of its surplus from net income. The World Bank and other multilateral development banks (e.g., the African, Asian and Inter-American Development Banks) will make their contributions to a special Multilateral Debt Trust Fund or parallel mechanisms.

At last September's annual meetings, the IMF and the World Bank were urged to implement quickly this new initiative in close co-operation with other IFIs and donor governments. Uganda will be the first candidate to be considered for exceptional treatment. Uganda was also the first country to receive "Naples terms" which is the most concessional treatment of debt forgiveness offered by the Paris Club of official government creditors. Following Uganda, there is a "cluster" of additional countries which could be considered for exceptional relief by early summer. Canada has been one of the leading supporters of the need for multilateral debt relief.

Existing Mechanisms for Assisting Heavily Indebted Poor Countries

World Bank Mechanisms

Regular Lending – The World Bank makes IDA credits available on highly concessional terms. In general, these take the form of 40-year loans which carry no interest rate charges.

Enhanced Access – Countries which are making special efforts to clear their arrears or undertake comprehensive debt workouts are given increased access to relatively scarce IDA resources.

The Fifth Dimension Facility – IDA-only countries which have incurred past market rate borrowings from the IBRD also receive annual interest rate subsidies. In recent years, these have had the effect of reducing the interest rate on these earlier IBRD loans from an average of about 6 per cent to less than 1 per cent.

IDA-Only Debt Reduction Facility – The IBRD provides grant financing (which carries no interest or principal) to eliminate up to 100 per cent of the debt which IDA-only countries owe to commercial banks. To date, this World Bank facility has extinguished almost US$3 billion of commercial bank debt at no cost to these developing countries.

International Monetary Fund Mechanisms

Surveillance of Policies – In individual countries, the IMF provides advice which encourages the adoption of policies that provide a basis for sustained economic growth and price stability. More broadly, IMF surveillance of the global monetary system is aimed at promoting the balanced growth of world trade and an orderly and stable system of exchange rates.

Enhanced Structural Adjustment Facility – ESAF is the Fund's major source of concessional financing for low-income countries which are undertaking major reform efforts in the context of an IMF program. In recognition of the special challenges of these countries, ESAF provides loans which carry longer maturity periods and significantly lower interest rates than regular IMF arrangements.

Technical Assistance – Both the IMF and the World Bank provide substantial technical assistance to low-income countries to help strengthen their debt management policies.

ANNEX 1

Active IMF Lending Arrangements – As of December 31, 1996

Member	Date of arrangement	Expiration date	Amount approved	Undrawn balance
			(million SDRs)	
Stand-by arrangements			16,803.29	6,203.13
Argentina	Apr. 12, 1996	Jan. 11, 1998	720.00	428.00
Bulgaria	July 19, 1996	March 18, 1998	400.00	320.00
Costa Rica	Nov. 29, 1995	Feb. 28, 1997	52.00	52.00
Djibouti	Apr. 15, 1996	June 14, 1997	4.60	1.73
Egypt	Oct. 11, 1996	Sept. 30, 1998	271.40	271.40
Estonia	July 29, 1996	Aug. 28, 1997	13.95	13.95
Hungary	March 15, 1996	Feb. 14, 1998	264.18	264.18
Latvia	May 24, 1996	Aug. 23, 1996	30.00	30.00
Lesotho	Sept. 23, 1996	Sept. 22, 1997	7.17	7.17
Mexico	Feb. 1, 1995	Feb. 15, 1997	12,070.20	3,312.18
Pakistan	Dec. 13, 1995	Sept. 30, 1997	562.59	321.48
Panama	Nov. 29, 1995	March 31, 1997	84.30	23.20
Papua New Guinea	July 14, 1995	Dec. 15, 1997	71.48	36.14
Romania	May 11, 1994	Apr. 24, 1997	320.50	226.23
Ukraine	May 10, 1996	Feb. 9, 1997	598.20	62.20
Uruguay	March 1, 1996	March 31, 1997	100.00	100.00
Uzbekistan	Dec. 18, 1995	March 17, 1997	124.70	59.25
Venezuela	July 12, 1996	July 11, 1997	975.65	625.65
Yemen	March 20, 1996	June 19, 1997	132.38	48.38
EFF arrangements			9,741.63	7,011.07
Algeria	May 22, 1995	May 21, 1998	1,169.28	590.88
Azerbaijan	Dec. 20, 1996	Dec. 19, 1999	58.50	53.82
Gabon	Nov. 8, 1995	Nov. 7,1998	110.30	66.18
Jordan	Feb. 9, 1996	Feb. 8, 1999	200.80	118.60
Kazakstan	July 17, 1996	July 16, 1999	309.40	309.40
Lithuania	Oct. 24, 1994	Oct. 23, 1997	134.55	41.40
Moldova	May 20, 1996	May 19, 1999	135.00	112.50
Peru	July 1, 1996	March 31, 1999	248.30	248.30
Philippines	June 24, 1994	June 23, 1997	474.50	438.00
Russia	March 26, 1996	March 25, 1999	6,901.00	5,031.99

Active IMF Lending Arrangements – As of December 31, 1996 *(Cont'd)*

Member	Date of arrangement	Expiration date	Amount approved	Undrawn balance
			(million SDRs)	
ESAF arrangements			3,922.92	1,709.28
Armenia	Feb. 14, 1996	Feb. 13, 1999	101.25	67.50
Azerbaijan	Dec. 20, 1996	Dec. 19, 1999	93.60	93.60
Benin	Aug. 28, 1996	Aug. 27, 1999	27.18	22.65
Bolivia	Dec. 19, 1994	Dec. 18, 1997	100.96	33.65
Burkina Faso	June 14, 1996	June 13, 1999	39.78	33.15
Cambodia	May 6, 1994	May 5, 1997	84.00	42.00
Chad	Sept. 1, 1995	Aug. 31, 1998	49.56	24.78
Congo	June 28, 1996	June 27, 1999	69.48	55.58
Côte d'Ivoire	March 11, 1994	June 13, 1997	333.48	–
Ethiopia	Oct. 11, 1996	Oct. 10, 1999	88.47	73.73
Georgia	Feb. 28, 1996	Feb. 27, 1999	166.50	111.00
Ghana	June 30, 1995	June 29, 1998	164.40	109.60
Guinea-Bissau	Jan. 18, 1995	Jan. 17, 1998	9.45	5.78
Guyana	July 20, 1994	July 19, 1997	53.76	17.92
Haiti	Oct. 18. 1996	Oct. 17, 1999	91.05	75.88
Honduras	July 24, 1992	July 24, 1997	47.46	13.56
Kenya	Apr. 26, 1996	Apr. 25, 1999	149.55	124.63
Kyrgyz Republic	July 20, 1994	July 19, 1997	88.15	32.25
Lao P.D.R.	June 4, 1993	May 7, 1997	35.19	5.87
Madagascar	Nov. 27, 1996	Nov. 26, 1999	81.36	67.80
Malawi	Oct. 18, 1995	Oct. 17, 1998	45.81	22.91
Mali	Apr. 10, 1996	Apr. 9, 1999	62.01	41.34
Mauritania	Jan. 25, 1995	Jan. 24, 1998	42.75	14.25
Mozambique	June 21, 1996	June 20, 1999	75.60	63.00
Nicaragua	June 24, 1994	June 23, 1997	120.12	100.10
Niger	June 12, 1996	June 11, 1999	57.96	48.30
Senegal	Aug. 29, 1994	Aug. 28. 1997	130.79	35.67
Sierra Leone	March 28, 1994	March 27, 1997	101.90	10.11
Tanzania	Nov. 8, 1996	Nov. 7, 1999	161.59	135.88
Togo	Sept. 16, 1994	Sept. 15, 1997	65.16	32.58
Uganda	Sept. 6, 1994	Nov. 17, 1997	120.51	23.43
Vietnam	Nov. 11, 1994	Nov. 10, 1997	362.40	120.80
Zambia	Dec. 6, 1995	Dec. 5, 1998	701.68	50.00
Total			30,467.84	14,923.48

ANNEX 2

World Bank Loans and IDA Credits – Fiscal Year 1996 (July 1, 1995 - June 30, 1996)

	World Bank	IDA	Total	
	Amount	Amount	No.	Amount
	(millions of U.S. dollars)			
By area				
Africa	0	2,740.1	53	2,740.1
East Asia and Pacific	4,252.2	1,167.9	46	5,420.1
South Asia	1,161.6	1,770.9	21	2,932.5
Europe and Central Asia	3,918.2	476.4	61	4,394.6
Latin America & the Caribbean	4,047.2	390.3	54	4,437.5
Middle East & North Africa	1,276.7	318.5	21	1,595.2
Total	14,655.9	6,864.1	195	21,520.0
By purpose				
Agriculture	1,160.3	1,416.4		2,576.7
Education	920.8	784.9		1,705.7
Electric power and other energy	2,899.2	347.9		3,247.1
Environment	348.1	36.8		384.9
Finance	1,199.2	161.4		1,372.7
Industry	217.0	14.8		239.8
Mining/Other extractive	570.8	109.0		679.8
Multisector	906.3	758.6		1,685.5
Oil and Gas	30.0	25.6		55.6
Population, health and nutrition	1,495.2	858.2		2,353.4
Public sector management	1,036.0	943.1		1,938.4
Social sector	240.0	554.5		794.5
Telecommunications/Informatics	35.0	–		35.0
Transportation	2,236.9	535.7		2,772.6
Urban Development	632.0	236.5		868.5
Water supply and sanitation	729.1	80.7		809.8
Total	14,655.9	6,864.1		21,520.0

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 Year[1]						
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
1995-1996	129	14,656.0	127	6,864.0	256	21,520.0
Total	3,923	280,906	2,680	96,941.9	6,603	377,848.5

[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, 1996

	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
FY 1996	169.0	56.0	225.0
Total	2,496.0	738.0	3,234.0
Per cent of total disbursements	2.29	1.81	2.16
Per cent of FY 1996 disbursements	2.48	2.13	2.38