



REPORT ON

OPERATIONS UNDER

THE BRETTON WOODS

AND RELATED

AGREEMENTS ACT

1998



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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 support high rates of sustainable economic growth. The IMF (or the “Fund”) has become a 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 difficulties.

The World Bank’s goal is to reduce poverty by raising living standards and by promoting 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 and technical assistance for projects which promote sustainable growth and an improved quality of life, 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). IDA is the component that provides assistance to the world’s poorest developing countries.

Canada is the eighth largest member of the Fund and the 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 1998. 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 rate 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.
- Provides support for poverty reduction through investments in health and education.
- 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

As a major trading nation, 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 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 elects an Executive Director to its 24-member Executive Board. This representation allows Canada to have high-level influence on decisions taken by the IMF on specific country assistance programs and major policy 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 the Department of Finance, the Bank of Canada and other government agencies.
- The efforts of the IMF to ensure countries abide by their obligations under Fund-supported programs help ensure that they repay Canadian bilateral loans and use our bilateral development assistance effectively.
- Canada earns a market rate of 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.

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 in amounts 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 1998, the total quotas for the Fund’s 182 members was SDR¹ 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, 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 prospective duration of the problem, these measures are agreed to as part of a Stand-by Arrangement or an Extended Fund Facility. Stand-by arrangements typically last 12 to 18 months while extended arrangements generally run for three years. Emergency financing for countries in crisis situations that could spill over to other countries is also available through the Supplemental Reserve Facility created in December 1997.

Members can also use financial facilities created for specific purposes, including the Compensatory and Contingency Financing Facility, 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 Enhanced Structural Adjustment Facility is made available in the form of low-interest loans with extended maturity periods.

¹ The SDR (special drawing right) is the standard unit of account for the IMF’s operations. It represents a weighted basket of five major currencies – the US dollar, the Japanese yen, the pound sterling and Euro values for the German mark and the French franc. At the end of 1998, the exchange rate was SDR 1 = C\$2.15.

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 the one which affected many emerging markets beginning in mid-1997 and continuing through 1998. This requires that the Fund move quickly to adapt its lending facilities and policies. Discussions continued during 1998 on a number of initiatives. Some of these represented the continuation of themes first advanced at the 1995 G-7 Summit in Halifax. However, many others reflected initiatives stemming from ongoing discussions with Canada's international partners, in response to problems revealed by the unfolding crisis. The key elements of these proposals included:

- identifying problems before they reach crisis proportions by strengthening the IMF's surveillance of national policies and financial market developments;
- encouraging the Fund to make greater efforts to help strengthen financial sectors in emerging markets, and improve co-operation between the Fund and the World Bank on financial sector issues;
- encouraging the IMF to refine its understanding of capital account liberalization by studying the experience of countries that have undertaken liberalization, with the ultimate goal of providing developing countries with a practical guide to capital account liberalization, aimed at codifying best practices and spelling out appropriate defence mechanisms for countries at different stages of development;
- helping to ensure that private-sector investment in emerging markets reflects a correct assessment of the underlying economic circumstances of countries, through greater transparency in their public sector, including more timely and higher quality economic and financial data; and
- ensuring that the Fund has adequate resources for its regular lending operations through approval of the Eleventh General Review of Quotas, and has adequate liquidity to respond to financial emergencies through approval of the New Arrangements to Borrow, which represent a doubling of the resources available to the IMF under the General Arrangements to Borrow.

As a follow-up to these recommendations, the Executive Board of the Fund initiated action four years ago in a number of areas. The financial crisis that has affected a number of emerging markets since mid-1997 and the ongoing challenges posed by an increasingly integrated global economic system reinforced the importance of the Fund carrying through with these initiatives. In particular, this includes the important work underway to improve the architecture of the international monetary system in the areas of transparency, provision and publication of data, international standards and strengthening of financial sectors.

Emerging Market Financial Crises

Over the past year the IMF has worked together with other members of the international community to try to avert or contain financial crises in emerging market economies. Substantial financial resources have been mobilized, as necessary, to help countries experiencing temporary liquidity problems. However, as was evident in the case of Russia, IMF assistance can only be maintained as long as the country involved demonstrates the desire to implement the necessary reform measures. International financial assistance is not a substitute for prudent domestic policy actions.

During the latter half of 1997, the IMF was a key player in international efforts to restore stability to East Asia. However, despite the significant amount of international support, confidence has been slow to return to the region. Economic turmoil has been compounded by political problems in some countries, notably Indonesia. Output in the economies of East Asia hardest hit by the economic turmoil declined sharply in 1998. However, there were signs late in the year that a turnaround was in sight – notably in Korea and Thailand, where implementation of their IMF programs has been good. The US\$17.2-billion international assistance package for Thailand included a US\$500-million loan from Canada.

The financial market turmoil spread to other emerging market economies in 1998. As financial pressures rose in the Russian economy in the spring, the IMF led an international effort to try to avert a crisis in that economy. The IMF approved financial support of US\$15.1 billion for Russia (including a previous commitment of US\$3.9 billion), as part of a broader international support package that totalled US\$22.6 billion. However, pressures on the Russian economy continued to mount, reflecting inadequate political commitment to implement the fundamental economic reforms needed to put the economy on a sustainable footing. In August, the Russian government effectively devalued the ruble and defaulted on some of its domestic debt. This led to the postponement of the international assistance package.

The Russian crisis resulted in a sharp widening of emerging market bond spreads, relative to comparable US Treasuries, as financial market participants became more cautious about investing in emerging market economies. The spillover effect from the Russian crisis was particularly pronounced in Latin America, most notably Brazil.

Concern over a devaluation in the Brazilian *real* led to capital flight and forced authorities to draw down foreign exchange reserves in defence of the crawling peg for the exchange rate. On November 13, an IMF-led international financial assistance package totalling US\$41.6 billion was announced for Brazil. As part of this package, Canada is participating in a Bank for International Settlements Credit Facility (of about US\$13.28 billion) by guaranteeing up to US\$500 million plus interest. While the package initially buoyed optimism

in the Brazilian economy, the slow progress made in passing the necessary fiscal consolidation measures led to a renewed bout of investor pessimism. Financial pressures became so intense that on January 15, 1999 the Brazilian authorities let the *real* float. The IMF and Brazil have agreed on the details of a modified IMF program that takes into account the changes to Brazil's economic outlook. These modifications were approved by the Executive Board in March.

IMF-Led Packages for Russia and Brazil

Contributions (in billions of US dollars)

Donor	Russia	Brazil
IMF	15.1 (267% of quota) ¹	18.1 (600% of quota) ²
Other international financial institutions	6.0	9.35
Bilateral	1.5	14.18
Total	22.6	41.6

¹ Financed partially through the General Arrangements to Borrow

² Financed partially through the New Arrangements to Borrow

Transparency and Accountability in the Fund's Own Operations

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 own 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 dissemination of information on the Fund's annual consultations with member countries, and opening of the archives for documents that are more than 30 years old. At Canada's instigation, the Fund began to examine ways in which it communicates its work to the public. In addition, the Fund is encouraging member countries to release Letters of Intent and Policy Framework Papers that underpin Fund-supported programs.

The Fund is also encouraging countries to publish the "mission statements" that are prepared at the time of the IMF's annual consultations with member countries. Prior to the preparation of the staff's report to the Executive Board, the IMF mission often provides the authorities with a statement of its preliminary findings at the conclusion of its discussions with the authorities. A number of countries, including Canada, are now releasing these statements.

In May 1997, the IMF inaugurated a new series of Public Information Notices (PINs) that provide background information on a member country's economy and the IMF's assessment of the country's policies and prospects. PINs are issued at the country's request following the conclusion of the Fund's regular consultation with the member. Canada's most recent PIN was published February 5, 1999. An increasing number of countries have agreed to the publication of PINs with over two-thirds of countries now agreeing. The Fund is also proposing issuing PINs on policy papers and regional economic reviews.

Canada has placed great importance on the establishment of an independent evaluation process that can impartially assess IMF activities on a regular basis. In this context, the IMF launched an evaluation by independent external experts of several aspects of Enhanced Structural Adjustment Facility (ESAF)-supported programs. This followed the internal IMF staff review of the experience of reform programs under the ESAF in 1997. The external evaluation concentrated on three topics: developments in countries' external positions 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 completed their report in early 1998.

The external report recommended that ESAF programs pay greater attention to the social impact of adjustment, particularly on the most vulnerable groups, and routinely undertake a broader review of policy alternatives to better entrench government ownership and commitment. In July 1998, the IMF's Executive Board discussed a follow-up report prepared by the staff, entitled *Distilling the Lessons of the ESAF Reviews*. Although Executive Directors continued to view the ESAF as an effective and valuable instrument in supporting macroeconomic adjustment and structural reform in low-income countries, they endorsed proposals to strengthen the design and implementation of ESAF-supported programs in the light of the findings of the internal and external ESAF reviews. At the urging of Canada and other countries, the IMF published the external evaluators' report and other documents related to the exercise, and broadened the process further by asking the general public to comment.

Two additional external evaluations were launched in 1998 and are expected to be completed in 1999. One is an evaluation of the overall effectiveness of the IMF's surveillance of member countries' policies. The other is an evaluation of the IMF's research activities.

In response to increased public interest in the IMF's financial position and the desire of members such as Canada for enhanced operational transparency, in November 1998 the Fund began to publish at intervals throughout the year information on its financial resources and liquidity position, in addition to the data already available in the institution's annual report and other publications.

How to Access Information from the IMF

A vast array of Fund information – including fact sheets, press releases, speeches, *IMF Survey*, annual reports, world economic outlooks, staff country reports, and working papers – is available on the Fund's public Web site at <http://www.imf.org/> . In addition, the IMF's Publication Services provides 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*

The Publications Centre is located at 700 – 19th Street N.W., Washington, DC 20431, USA. Phone: (202) 623-7430; fax: (202) 623-7201. Internet address: publications@imf.org .

Provision and Publication of Data

Following the 1995 Halifax Summit, the Fund also initiated work on new data standards to better inform markets of financial and economic developments and to strengthen Fund surveillance. Countries that are capital market borrowers are now making comprehensive data available to the public on a timely basis under the IMF's Special Data Dissemination Standard (SDDS) established in April 1996. Information on the statistical practices of members subscribing to the new standard is posted on the IMF's Dissemination Standards Bulletin Board (DSBB) on the Internet (<http://dsbb.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 DSBB at <http://dsbb.imf.org/country/cancats.htm> .

The Fund reviewed progress under the SDDS in 1998 and approved a number of measures related to its operation, including extending to the end of 1999 when subscribing countries are to be in full observance of the standard, making the dissemination of annual data on international investment positions a requirement by the end of 2001, and prescribing mandatory hyperlinks from the DSBB to national data sites by the end of 1999.

The recent financial crises in a number of emerging markets demonstrated additional shortcomings in the public availability of data on external debt and international reserves with regard to forward operations and the usability of reserves. Disclosure of information on the financial situation of commercial banks was also unsatisfactory. At the urging of Canada and other members, the IMF is continuing to examine ways to expand the SDDS to improve coverage of these areas.

Standards

The Fund is also contributing to the development and dissemination of international standards in other areas. In 1998, the Fund adopted a Code of Good Practices on Fiscal Transparency to guide member countries in enhancing the accountability and credibility of fiscal policy. Members are encouraged to implement the Code on a voluntary basis. The Fund is also developing, in consultation with central banks and international financial supervisory authorities, a similar code with respect to monetary and financial policies.

New Arrangements to Borrow

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 (GAB) (a credit arrangement which backstops the IMF's regular resource base) and enlarging the number of countries that could provide exceptional financial assistance to the IMF. A G-10 Working Group, chaired by Canada, undertook consultations with potential new participants.

The Fund's Executive Board approved the New Arrangements to Borrow (NAB) in early 1997, effectively doubling the resources, or credit, currently available to the IMF through the GAB. The resources are provided by the G-10 countries and some 14 other industrial countries and emerging economies judged to have the capacity to support the international financial system. The broader participation of 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.

The NAB came into force November 17, 1998 and was activated for the first time on December 2, 1998 in support of the IMF's Stand-by Arrangement with Brazil. The NAB participants, including Canada, agreed to lend up to SDR 9.1 billion in support of the Fund's financing to Brazil through its Supplemental Reserve Facility, of which SDR 2.9 billion was made available in 1998.

New Arrangements to Borrow

The main features of interest of the New Arrangements to Borrow (NAB) 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.
- Twenty-five countries have agreed to lend up to SDR 34 billion (about C\$73 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 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.

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, and no less frequently than every five years, to replenish its regular or quota-based resources. The IMF reached agreement under the Eleventh General Review in 1997 on a 45-per-cent increase in IMF quotas to SDR 212 billion (US\$297 billion). Seventy-five per cent of the overall increase was distributed among all members in proportion to their existing quotas. The balance of the increase was distributed so as to better align members' quotas with their relative positions in the world economy. The new quotas came into effect January 22, 1999 when the IMF determined that members having 85 per cent of total quotas had ratified their increased quotas. Canada's quota was raised from SDR 4,320.3 million to SDR 6,369.2 million.

SDR Allocation

For a number of 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 the IMF/World Bank annual meetings in September 1997, IMF Governors approved a special one-time allocation of SDR 21.4 billion that will ensure that all members receive an equitable share of cumulative SDR allocations.

The one-time allocation, which requires an amendment of the Fund's Articles of Agreement, will double the amount of SDRs already allocated. The allocations to be provided to member countries will establish a common "benchmark" of cumulative allocations to members' Ninth Review quotas. The allocation will be made when the amendment has been accepted by the governments of three-fifths of IMF members having 85 per cent of total voting power.

Special Drawing Rights

- The special drawing right (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.
- A general SDR allocation requires 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 general allocations, the most recent undertaken in 1981. The outstanding stock of SDRs currently totals SDR 21.4 billion.

Canada has received allocations totalling SDR 779.3 million. Following the special one-time allocation, Canada's allocations will increase to SDR 1,266.5 million.

Governance

A significant initiative in 1997 was the adoption of guidelines regarding the role of the Fund in issues of governance. The guidelines (News Brief 97/15 on the Fund's Web site) reflect the increased importance that Fund members place on good governance and support a more active Fund approach in advocating policies and administrative practices that reduce the opportunity for corruption in the management of public resources.

Canada led efforts in 1998 to get the IMF to more explicitly inform countries of concerns about the links between poor governance and weak economic performance, and to delay or suspend IMF support until countries have taken appropriate corrective action. Canada also encouraged the Fund to work with member countries to improve the quality of government expenditures by reducing outlays for unproductive purposes, such as costly military budgets, thereby making room for productive spending on primary health care and basic education, for example.

Capital Account Liberalization

In 1998, in response to the efforts of a number of countries including Canada, the focus of the Fund's involvement in the issue of capital account liberalization shifted away from a discussion of the need for a formal extension of its jurisdiction in this area to ways of providing better policy advice to help countries on the path to orderly capital account liberalization. This reflects the view that, although capital account liberalization can bring important benefits, it can also increase countries' vulnerability to sudden shifts in investor sentiment. This is particularly the case if they rely heavily on short-term capital flows, or have weak domestic financial sectors.

An important lesson from the 1998 financial crises is that the opening of the capital account must be carried out in an orderly, gradual and well-sequenced manner. To this end, Canada has called for the IMF to play an expanded role in this area by developing a practical guide, or "roadmap," for safe capital liberalization in developing countries. The objective would be to codify best practices and spell out appropriate policies for countries at different stages of development.

Lending Developments in 1998

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 1998, the IMF had lending arrangements worth SDR 61.2 billion in place for 59 member countries (see Annex 1). Drawings by these countries in 1998 increased to a record level of SDR 21.5 billion. The increase in lending was primarily the result of drawings under new financial arrangements with Russia and Brazil as well as drawings under existing arrangements with Korea and other members affected by the Asian crisis.

Table 1
IMF Resource Flows

	1997	1998
	(in SDR billions)	
Total purchases	16.8	21.5
Of which:		
Stand-by Arrangements	13.2	12.1
Extended Fund Facility	2.8	6.3
Compensatory and Contingency Financing Facility	0.1	2.2
Enhanced Structural Adjustment Facility	0.7	0.9
Total repurchases	5.7	6.7
Net purchases	11.1	14.8

In 1998 lending increased sharply under the Extended Fund Facility (EFF), mainly to Russia and Indonesia. In July 1998, Russia's existing EFF arrangement was augmented by SDR 6.3 billion. Nearly half of the initial disbursement was made available to Russia through the Supplemental Reserve Facility (SRF), the Fund's short-term lending facility that addresses crisis situations which could spill over to other countries. In August 1998, Indonesia's existing stand-by credit was replaced by an EFF arrangement designed to address the country's deep-seated structural problems and provide a longer repayment period than was available under the stand-by credit.

The continued high level of disbursements under stand-by arrangements in 1998 was sustained by a large drawing made late in the year under the new arrangement approved for Brazil. Most of the drawing was made available under the SRF.

Lending rose slightly under the IMF's concessional facility, the Enhanced Structural Adjustment Facility. Russia accounted for the full amount of SDR 2.2 billion disbursed under the Compensatory and Contingency Financing Facility, one of the Fund's other special-purpose facilities.

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 Canada's Executive Director at the Fund's Executive Board, interventions at the spring and fall meetings of the Interim Committee, his plenary speech at the IMF/World Bank Annual Meetings and periodic meetings with the Managing Director of the Fund. (The Minister's speeches are available on the Department of Finance Web site 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 the responsibility of 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 Canada and the Canadian International Development Agency. 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 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. But in 1998 Canada abstained on the vote to increase IMF staff salaries. In early 1999 Canada also abstained on a vote to approve Pakistan's request for financial assistance.

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.

Canadian Members 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. John Nelmes
Phone:	(202) 623-7778; fax: (202) 623-4712
Address:	11-100, 700 – 19th Street N.W., Washington, DC 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's 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 following the recent increase, associated with the coming into effect of the Eleventh Review, is SDR 6,369.2 million, or about 3 per cent of total quotas. Our quota subscription is a government asset, which we make available to the Fund partly in Canadian dollars and partly in reserve currencies, such as US 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 member countries. In 1998, Canada received SDR 36.4 million on its net creditor position in the IMF. In addition, Canada received SDR 0.8 million in interest on General Arrangements to Borrow lending to the IMF (additional information on this lending is provided below).

Table 2

Canada's Financial Position in the IMF

	December 31, 1998	December 31, 1997
	(in SDR millions)	
Quota	4,320.3	4,320.3
Fund holdings of Canadian dollars	2,892.1 ¹	3,153.0 ¹
Reserve position in the Fund	1,428.2 ²	1,167.3 ²

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 draw on demand from the IMF for balance of payments purposes. Our reserve position in the Fund is the result of the portion of our quota subscription made available to the Fund over time in reserve currencies, the use of the Canadian dollar in Fund financial transactions with other members, and loans to the IMF under borrowing arrangements such as the General Arrangements to Borrow and New Arrangements to Borrow. As the name suggests, our 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 779.5 million, or 100.0 per cent of our cumulative allocation of SDRs. In 1998, Canada held SDRs in an amount greater than our allocation, and so earned net interest income of SDR 1.1 million.¹ 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.

Last year, in line with earlier commitments, Canada made further contributions 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 the ESAF is a loan of SDR 500 million and a grant of approximately SDR 190 million. At the end of 1998, loan payments under these arrangements totalled SDR 399.5 million and subsidy contributions equalled SDR 104.4 million.

Canada is also a participant in the General Arrangements to Borrow (GAB), the credit arrangement established by the 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 credit was used for the first time in a number of years to finance the SDR 6.3-billion augmentation of Russia's extended arrangement. The IMF made only one call of SDR 1.4 billion under the activation, of which Canada's share was SDR 75.8 million. As noted above, Canada is also a participant in the

¹ When a member's holdings of SDRs is greater (lesser) than its cumulative allocation, that member (the Fund) receives interest on the difference.

New Arrangements to Borrow (NAB), and in December 1998 lent the IMF SDR 128.7 million under the first call in support of Brazil's Stand-by Arrangement. Both the GAB and NAB loans were repaid by the IMF to Canada in March 1999.

Challenges Ahead

A key challenge for the Fund is to ensure that its mission meets the needs of an increasingly integrated global economic system. In addition, the Fund must continue to provide support to members with balance of payments problems, including the heavily indebted poor countries (HIPC). To meet these challenges:

- The IMF should examine how it can reorient its surveillance activities to better foresee, prevent and respond to liquidity and confidence crises of the type that have recently affected Asia.
- The IMF must continue to make an effective contribution to a comprehensive debt strategy by ensuring that it has sufficient resources to continue to finance the ESAF for the benefit of the HIPC. The IMF must continue its efforts to establish a "self-sustained" ESAF to ensure low-interest loans with extended maturity periods are available for low-income countries.
- The IMF must devote close attention to the issue of how to achieve appropriate sequencing of capital account liberalization, with special emphasis on the priority of strengthening financial sectors and ensuring their adequate regulation and supervision.

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 181 members and loans and credits to 85 developing member countries in fiscal year (FY) 1998, 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 and poverty reduction prospects. In its 1998 fiscal year, the World Bank committed loans and credits of about US\$28.6 billion to these countries (see Annex 2). In over fifty years of existence, it has provided more than US\$400 billion in loans to the developing world (see Annex 3).

How the World Bank Group Works

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

The IBRD and IDA (together commonly known as the World Bank) both provide funding for investment projects and for adjustment, or economic reform, operations. The IBRD lends funds on commercial terms (slightly above a market interest 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 IDA receives grant funding from donors and other sources including World Bank net income (details are provided below). In effect, the IBRD on-lends to borrowing countries at a rate of interest much lower than 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 inconvertibility during civil conflict.

Many of the Bank's members continue to face a tremendous challenge in raising the living standards of their populations. The Bank's support has been crucial in transforming a number of countries from dependence towards greater self-reliance. Where countries have established an appropriate enabling environment, private capital can play an 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.

Responding to the Emerging Markets Financial Crisis

International markets remained volatile in 1998 and into 1999, with the East Asian financial crisis spreading to other emerging markets (most notably Russia and Brazil). This emerging markets financial crisis poses a considerable risk to global economic expansion and threatens to undermine global progress in reducing poverty. The World Bank, together with the IMF, has assumed a central role in providing financial and technical assistance to economies affected by the emerging markets financial crisis. The two institutions are playing a particularly important role in helping restore international investor confidence in crisis economies. Distinct from the IMF, the World Bank's participation in the global response to the financial crisis is shaped by its mandate and experience in promoting longer-term sustainable economic development.

After expanding rapidly in the early and mid-1990s, private capital flows to developing countries have contracted sharply since the onset of the financial crisis. This contraction, coupled with a continuing decline in transfers from bilateral Official Development Assistance agencies, increased demand for World Bank financing considerably in FY 1998 (July 1, 1997-June 30, 1998). Demand has continued to remain strong.

Demand has been particularly high for adjustment lending,² which has been the principal vehicle for the delivery of Bank assistance to crisis economies. Adjustment lending as a share of total Bank (IDA and IBRD) lending operations increased in FY 1998 to 39 per cent, compared to 26.5 per cent in FY 1997 and 21 per cent in FY 1996. In FY 1998, for the IBRD alone, adjustment lending amounted to 47 per cent of the institution's total lending operations. By agreement of shareholders, IBRD adjustment lending is normally subject to a notional ceiling equivalent to 25 per cent of total lending. Executive Directors of the Board of the Bank agreed in FY 1998, given the Bank's critical role in the international effort to address the financial crisis and the link between longer-term development and the restoration of growth that adjustment lending supports, that this lending guideline could be exceeded in FY 1998. It may be exceeded in FY 1999 as well.

² An "adjustment loan" is a rapidly disbursing lending instrument used by the Bank to provide support for a government's structural reform program. The bulk of the Bank's total lending operations, however, are in the form of "investment loans," which are disbursed over the medium- to long-term implementation periods of specific development projects.

In FY 1998, total Bank lending commitments rose an unprecedented 67 per cent over the 1997 total to US\$28.5 billion. The bulk of this lending (US\$16 billion) was to East Asian crisis economies; additional lending has also been provided to Russia, Brazil and Argentina. In the case of one recipient, Korea, the Bank had not been an active lender since 1988.

Lessons of the Crisis

Three important lessons have been learned by the Bank from the emerging markets financial crisis. First, good governance, including strong supervisory institutions, is key to economic stability. Second, financial crises inevitably have social consequences and, in particular, often markedly worsen the plight of the poor. And third, multilateral and bilateral agencies must better co-ordinate their responses. The Bank has incorporated these lessons into its operations and this is reflected in the four principal orientations of its crisis support programs: (a) addressing the social consequences of the crisis (social safety net and labour market issues); (b) promoting better governance; (c) targeting assistance to financial and corporate restructuring and providing support for structural reforms which are aimed at restoring sustainable growth; and (d) building partnerships.

(a) Helping to Protect the Poor

The speed and depth with which the emerging markets financial crisis has affected the poor has taken governments and multilateral institutions by surprise. Affected countries have been hit by falling incomes, rising absolute poverty and malnutrition, declining public services, threats to educational and health status, increasing vulnerabilities among women and children, and growing crime and violence. Indonesia has been affected most acutely; the IMF is projecting that as many as 21.5 million people, amounting to about 11 per cent of the population, could fall below the poverty line (living on less than US\$2 a day). It is estimated that the number of people below the poverty line could increase by as many as 6.7 million (12 per cent of the population) in Thailand, and by as many as 5.4 million (12 per cent of the population) in Korea. In the case of Brazil a 3-per-cent fall in GDP would push an estimated 7.5 million Brazilians below the poverty line.

In response, the Bank has made incorporating support for the social sector a key element of its economic adjustment and restructuring assistance in crisis economies. The Bank's work includes assistance to governments in designing and financing social investment funds and in strengthening social security systems for the elderly and unemployed.

In FY 1998, the Bank committed roughly US\$800 million in direct support of social sector projects in the East Asia and Pacific region and it plans to triple this level over the next three years. Recent structural adjustment loans to Thailand, Korea, Indonesia and Malaysia have all incorporated components aimed at protecting public spending on health and education (both of which have a strong pro-poor impact). The Bank estimates that the bulk of its adjustment lending in East Asia in FY 1998 could be broadly characterized as "poverty-focused."

More broadly, in FY 1998, 40 per cent of the Bank's total investment (project) lending was targeted directly at the poor (compared to 29 per cent in FY 1997). In addition to its social sector project lending, the Bank's adjustment lending also provides direct budgetary support to the government programs that have a strong social component. The World Bank also supports social sector activities through its policy discussions and consultations with governments, through its provision of technical assistance, economic surveys and public expenditure reviews, and through its participation in partnership programs.

Impact of the Crisis on the Poor/Reaction of the World Bank

The World Bank's immediate focus in crisis economies is to ensure that low-income and poor households have adequate food, security and access to critical needs such as medicine and hospital supplies. To this end, Bank interventions support public spending which benefits the poor and helps improve safety net arrangements.

- In Indonesia, assistance is given to introduce subsidies for essential goods as well as scholarship funds for 2.6 million needy junior secondary school students.
- In Thailand, the Bank is working closely with the Thai government to identify what public expenditures that may directly assist the poor can be protected or expanded. In addition, a US\$300-million Bank loan will fund job creation for the poor and the unemployed through public works programs, which are expected to create roughly one million months of jobs.
- In Korea, substantial assistance was given for pension reforms. Bank lending has helped the government increase its budgetary allocations for social safety net programs (social safety net outlays included in 1998 amounted to 2.5 per cent of GDP, a ten-fold increase over 1997).
- In Brazil, a US\$252-million loan will help the government provide assistance to children in poor families, retired and disabled poor, as well as families needing access to free or low-cost health services. A separate US\$757 million loan is targeted at supporting the reform of the national pension system.

(b) Promoting Good Governance/Combating Corruption

With its adjustment and technical assistance loans, the Bank is supporting various civil service reforms that are targeted towards improving governance by enhancing public accountability and transparency of government agencies. The Bank also provides governments with advice on the drafting of governance-related laws, including legislation to combat corruption. This work is being supported by extensive Bank analysis of budgetary processes and institutional effectiveness. In Indonesia, the Bank is working with the government and representatives of civil society to develop a comprehensive public sector anti-corruption strategy.

(c) Supporting Reform and Restructuring

With respect to the corporate sector, the Bank is assisting governments in developing restructuring and bankruptcy frameworks and stronger competition policy, as well as supporting corporate governance and legal reforms.

A strong financial sector is key to recovery and in its financial sector work, the Bank increased its professional staff complement by some 50 per cent over the past 18 months, with a number of financial experts having been brought in from the private sector.

The Toronto Centre

Recognizing the need to strengthen financial sector regulation and supervision in crisis economies, in 1997 the Government of Canada and the World Bank announced the creation of the Toronto International Leadership Centre for Financial Sector Supervision. The Toronto Centre provides experience-based training for senior financial supervisors and regulators in emerging markets. It focuses on the leadership dimension of the supervisory function, offering pragmatic programs based on the premise that experience is the best teacher. Canadian government funding for the Toronto Centre is provided by the Canadian International Development Agency. The Schulich School of Business at York University is hosting the institution.

The Toronto Centre successfully completed two courses on banking supervision during 1998; there was an excellent roster of candidates for these sessions. The candidates have been at senior levels, generally reporting to the Governor or Deputy Governor. The Toronto Centre will branch out in the coming year, providing one securities course along with three courses on banking supervision.

The World Bank has recently set up a Web site for the Toronto Centre at <http://www.worldbank.org/html/fpd/tc> .

The Bank is providing extensive support to establish banking restructuring agencies and implement measures to deal with non-performing banking portfolios, insolvent financial institutions and asset disposition. The Bank is also helping to establish sound legal, accounting and regulatory frameworks, promote improved governance in financial institutions and strengthen financial supervisory institutions.

(d) Improving Co-ordination With Other Agencies

In 1998, at the request of shareholding governments, the Bank and the IMF undertook a frank assessment of their joint work and developed substantive measures to improve mutual co-operation. These measures, which are now being implemented, include a better delineation of responsibilities between the institutions and the establishment of a senior management Liaison Committee charged with enhancing joint Bank/Fund work with relevant international supervisory agencies. Through these closer links, the IMF has been able to benefit from the experience of the Bank in assessing the longer-term development impact of its own structural adjustment lending. Collaboration between the Bank and Fund has been particularly close in critical financial sector work (see the Joint Issues section.)

The Bank and the Fund are also working closely with governments to develop and implement a debt relief program for good-performing HIPC's. This initiative is described in detail in the Joint Issues section.

Over the last year, the World Bank also has worked to deepen its partnerships with regional development banks and other multilateral agencies (including the World Trade Organization and the United Nations Conference on Trade and Development) as well as bilateral agencies. A tripartite consultation mechanism involving the Bank, the IMF and the Asian Development Bank has been established to co-ordinate programs in Asian crisis economies.

Impact of the Emerging Market Crisis on the World Bank

The emerging markets financial crisis and the concomitant increased demands on the World Bank have increased stress on the Bank's own staff and administrative resources. As well, they have increased the Bank's risk exposure through the rapid growth of crisis countries' share in its overall loan portfolio.

The large growth in World Bank exposure has increased the Bank's reserve requirements. On July 30, 1998, the Bank added US\$750 million to IBRD reserves from its FY 1998 net income of US\$1.2 billion.³ In July 1998, in a move to strengthen net income, the Bank increased charges on its non-concessional loans. The interest rate charged borrowers was increased by 25 basis points (one quarter of 1 per cent) and a new front-end fee of 100 basis points (1 per cent of the loan amount) was introduced. For FY 1999, the Bank also reduced to 5 basis points the standard 25-basis-point interest rate reduction (waiver) it normally grants on loans which are paid on schedule.

³ The World Bank raises net income through revenues on its non-concessional (IBRD) lending operations as well as through income on its equity investments. Net income finances allocations to World Bank reserves, as well as to various World Bank programs, including the Initiative for Heavily Indebted Poor Countries, the Development Grant Facility and the Bank's contribution to IDA is capital replenishments.

In order to more effectively balance the need for the Bank to be active in crisis economies with the need to prudentially manage the risks associated with its growing exposure to these economies, in November 1998 the Executive Board approved a new financing instrument. Known as the Special Structural Adjustment Loan (SSAL), this instrument will be used in rare cases and in concert with the IMF, other international financial institutions and governments, to provide exceptional adjustment lending to middle-income developing countries in financial crisis or pre-crisis situations. The Executive Board also approved the introduction of the Programmatic Structural Adjustment Loan (PSAL), which is designed to give a multi-year planning component to traditional structural adjustment loans.

Programmatic and Special Structural Adjustment Loans

As part of its response to the increasing demands from the emerging markets financial crisis, in October 1998, the World Bank introduced two new lending facilities: the Programmatic Structural Adjustment Loan (PSAL) and the Special Structural Adjustment Loan (SSAL).

- **PSALs** introduce a multi-year planning dimension to structural adjustment programs and include longer-term support for public budgets during periods of sustained policy and institutional reform. By so doing, this instrument gives greater predictability to Bank support and monitoring.
- The **SSAL** is a much more ambitious instrument and was designed specifically for middle-income countries affected by financial crises. The SSAL is a fast-disbursing financial support vehicle which would be used in the early stages of a Bank-Fund crisis support program. An SSAL is delivered as part of a concerted international support package for a given country involving the IMF, regional development banks, governments and the private sector.
- Given the nature of crisis support, lending under an SSAL would exceed the country amount foreseen in Bank Country Assistance Strategies. At eight years, the SSAL also has a shorter repayment period than a regular Structural Adjustment Loan (SAL). Moreover, given the higher risk of lending in a crisis situation, SSAL loan pricing is roughly 3.5 percentage points above that of a regular normal SAL. Since its introduction, US\$4 billion in SSAL loans have been approved for two countries (Argentina and Brazil).

In February 1999, in response to client demands for financing products which would involve less interest rate risk, the Bank approved, effective September 1, 1999, a new “fixed spread” lending rate. Under this mechanism, the Bank will fix the interest rate spread above Bank borrowing costs that is charged to IBRD borrowers for the duration of loan amortizations. In addition, the Bank will be offering clients advice on interest rate and currency hedging.

The Bank is continuing to search for innovative means of increasing global financing available for middle-income countries threatened by the emerging markets financial crisis. In March 1999, the Bank elaborated a new proposal for a guarantee instrument to provide financial support to middle-income developing countries. This proposal will likely be considered by the Executive Board in the spring of 1999. If approved, this "policy-based guarantee" proposal would see the expansion of the IBRD's guarantee program beyond project finance to include adjustment operations. The Bank, in partnership with other multilateral organizations or donor governments, could then in the future provide partial guarantees on commercial loans to or partial guarantees of sovereign bond issues by middle-income country governments which are pursuing structural adjustment programs. The proposed guarantee program would be narrowly targeted at middle-income countries with good macroeconomic track records. The object of the proposal is to increase the amount of private sector financing available to these governments by using a partial World Bank guarantee as leverage.

Other World Bank Lending Operations in FY 1998

In 1998, the Bank also provided substantial support to East African and Latin American countries whose economies have been damaged by the effects of El Niño on weather patterns. This emergency response included a quick reaction in the fall of 1998 to support countries in Central America devastated by the Hurricane Mitch. Canada pledged \$8 million to the special Central America Emergency Trust Fund housed at the World Bank to assist countries severely affected by Hurricane Mitch, especially Honduras and Nicaragua, both HIPCs.

While lending by region increased most dramatically in Asia-Pacific countries, each of the Bank's geographic departments increased the volume of their lending operations in FY 1998. Perhaps most notable was the 57-per-cent increase in operations in Africa, which reflected both the effects of the conclusion of the internal restructuring of the Bank's African department and, more significantly, improvements in the economic climate in several African countries.

Sanctions on Operations in India/Pakistan: In response to a request from G-8 governments following the testing of nuclear weapons by India and Pakistan in May 1998, the World Bank has limited its operations in both countries to projects which support basic human needs (health, education, etc.).

Comprehensive Development Framework

The increased demands on the Bank resulting from the emerging market crisis has focused the attention of Bank management and shareholders alike on the nature of the Bank's development assistance mandate. President James D. Wolfensohn has stressed the need for the Bank to maintain the institution's focus on longer- term development issues and at the Bank's

Annual Meeting in October 1998, he launched his idea for a new framework, referred to as the Comprehensive Development Framework (CDF), for assessing and implementing development assistance.

Under the CDF proposal, President Wolfensohn has called on governments and other development actors to improve their partnerships and to take a longer- term, holistic approach to development. The CDF will provide a transparent, overarching framework to help guide bilateral assistance providers, developing country governments, and private and civil society actors in their development work. The CDF includes a complex matrix that matches development issues with the responsibilities of different development agents. This matrix has been designed to reflect the interdependence of macroeconomic and financial factors with structural, social, environmental, governance and human concerns.

Recognizing that in the past a lack of sufficient local ownership of programs has undermined development effectiveness, the CDF stresses the importance of transferring responsibility for the goals, phasing, and timing of development programs to local governments and community organizations. The Bank aims to introduce the CDF on a trial basis over the next year in about twelve different countries. The first such test case will be in Bolivia.

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 to improve 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. The 1998 WDR focused on the role of knowledge in advancing well-being. Considerable groundwork for this study was laid at the Global Knowledge 97 conference hosted in Toronto in 1997 by the Canadian government and the World Bank. The Global Knowledge Partnership grew out of this conference and draws together public and private sector actors as well as non-governmental organizations (NGOs) committed to promoting broader access to knowledge that can promote sustainable development. The upcoming WDR (2000) will focus on poverty.
- Canada benefits from the Bank's leadership role in bringing together donors to respond quickly to emergency situations in countries in post-conflict situations. The World Bank also provides Canada with a forum for working together with other donors to establish a common position to deal with

the emerging markets financial crisis. For example, Canada and other donors have worked closely with the World Bank and the IMF to assemble a multilateral financial assistance package for Brazil. 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 30 separate CGs and donor groups. CIDA and other donors also benefit from the Bank's co-ordination of major international programs, such as the Special Program of Assistance for Africa (SPA) and the Global Environment Facility (GEP).
- The Canadian government draws heavily on the Bank's research and policy work to enrich its 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 our membership in the World Bank Group. Disbursements in FY 1998 for Canadian goods and services totalled US\$233 million, bringing total cumulative disbursements to more than US\$3.6 billion.

IDA 12 Replenishment

While much of the recent focus of the international community has been on those countries most directly affected by the emerging market financial crisis, we cannot forget the plight of the poorest countries. Already in a difficult situation, many of these countries have been further affected by the fallout of the crisis on commodity prices. For example, some 75 per cent of Sub-Saharan African exports are in primary commodities. This increasing globalization of the world economic system has underlined the importance of raising standards of living and supporting longer-term sustainable growth in all countries, including the poorest ones.

The International Development Association's (IDA) mission is to reduce poverty and improve the quality of life in the poorest countries of the world. IDA does this by supporting projects that improve countries' living standards and by promoting equitable access to the benefits of economic development. IDA focuses on results – to get the biggest development return from scarce aid resources; sustainability – to achieve enduring development impact within an environmentally sustainable framework; and equity – to remove barriers and open up opportunities for the disadvantaged.

IDA Funding

The International Development Association (IDA) is the World Bank Group's concessional lending window. It provides long-term loans at zero interest to the poorest of the developing countries. IDA is funded largely by contributions from the governments of the richer member countries and is replenished every three years. Agreed to in November 1998, the Twelfth Replenishment will finance projects over the three years starting July 1, 1999. Funding for the Twelfth Replenishment will allow IDA to lend about \$20.5 billion, of which donors' contributions will provide just over half. The remainder is provided by loan reflows, investment income, IBRD net income transfers and other income sources.

Canada committed \$607 million (over a three-year period beginning in 1999) to maintain its 3.75 per cent IDA share in the replenishment exercise.

IDA Priorities

Poverty reduction is the cornerstone of IDA's development efforts. Sound macroeconomic and structural policies, institutional reforms and good governance are essential to achieve a sustainable decline in poverty. In recent years, IDA has devoted significant resources to improving the quality and effectiveness of its assistance efforts. The participation of government, non-governmental organizations (NGOs) and civil society is critical. The degree of borrower ownership and the level of participation by NGOs and civil society have increased substantially through the course of IDA replenishments.

IDA focuses its work on areas shown to have a significant development impact. For example, work is underway to improve IDA's track record in assisting borrowing countries to formulate and implement poverty reduction strategies that adequately incorporate gender. As well, in recognition of the fact that weak governance, including corruption, can constrain development, IDA has incorporated governance considerations in its work (see below).

Lending for social services has been a focal point of the World Bank's, and particularly IDA's, poverty reduction efforts in recent years. IDA places particular emphasis on lending targeted directly to the poor under the Program of Targeted Interventions (PTI). Over the 1996-1998 period, PTI lending has consistently accounted for more than 50 per cent of IDA's investment lending.

Table 3
IDA Lending for the Program of Targeted Interventions
Fiscal Years 1996-1998

	1996	1997	1998
IDA PTI lending (in US\$ millions)	3,246	1,874	3,267
As % of IDA investment lending	63	53	54
As % of all IDA lending	47	41	44
Number of IDA PTI projects	51	37	59

IDA12 resources will focus on four key areas:

- **Investing in people** – Investments in basic social services, including primary education and health care, clean water and sanitation, nutrition and social protection. This funding will address such needs as ensuring that children who are forced to work to help support their families do not have to sacrifice opportunities to learn. Social sector lending will remain around 40 per cent of investment lending during IDA12.
- **Promoting broad-based growth** – Development experience shows clearly that sustainable, broad-based economic growth is essential for poverty reduction. In particular, IDA will support policy changes and projects that encourage the role and growth of the private sector, including local small businesses, micro-enterprises and small holding farms.
- **Supporting good governance** – Good governance is critical to sustainable, broad-based economic development and improvements in human well-being. As discussed below, IDA has strengthened its analytical framework to assess the quality of overall policy performance in recipient countries, including governance factors, which will be applied in the allocation of IDA12 resources.
- **Protecting the environment** – IDA will support strategies that promote environmentally sustainable development since the effects of poverty and environmental damage are often mutually reinforcing.

IDA also recognizes that a special effort is needed in Africa – a region that continues to present a particularly difficult development challenge. Many African countries are now pursuing sound policies and experiencing greatly improved growth rates, opening a window of opportunity to improve the lives of their poorest citizens. Yet investment levels in these countries are too low to sustain this growth. Sustaining and building on their efforts will require substantial support from the international community, including both the private and public sectors. To support African countries that are committed to poverty reduction, economic reform and sustainable, broad-based growth, IDA intends to increase Africa's share of IDA resources with aim of reaching 50 per cent of IDA12 resources, as long as the performance of individual countries warrants it.

However, the reality is that most of the world's poor live in Asia, and that in many parts of Asia social indicators are worse than those found in Africa. In response, IDA will also focus on these countries, with particular emphasis on social and environmental programs for the “blend” borrowers – those countries that have limited access to non-concessional funds but differ widely in their economic development prospects.

How IDA Resources Are Allocated

IDA resources are scarce and must be allocated where they are most likely to promote sustainable broad-based growth – where countries are implementing sound policies. Country performance assessments have been carried out annually since 1980 and have increasingly served as the basis for IDA resource allocation. In the IDA12 replenishment, the criteria that are used in these assessments were significantly refined.

Two features of the modified criteria are particularly noteworthy: those criteria concerning policies to reduce inequalities and those concerning governance and public sector performance. The first is aimed at capturing the role of policies and institutions in ensuring that the benefits of growth are widespread. The latter reflects the consensus of IDA12 donors that good governance affects the growth and poverty reduction prospects of a country and is therefore central to IDA's objectives. Accountability, transparency, the rule of law and participation represent four major pillars of governance that are critical to the development process and the effective use of IDA resources.

Canada's Priorities at the World Bank

Developmental Priorities

Despite considerable progress over the last two decades in improving living standards worldwide, over 3 billion people remain in dire poverty. The emerging markets financial crisis has eroded some of the progress achieved, with hundreds of millions of people thrown back into poverty over the last two years.

Canada has long been a key player in international efforts to assist the poorest and strongly supports **poverty reduction** as the overarching objective 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 that need to be considered in designing strategies to help improve the living standards of the poor in member countries. Greater emphasis has also been placed on ensuring that social safety nets are in place to protect the poor during periods of economic adjustment.

Canada's Voting Record (April 1998-March 1999)

World Bank Executive Board decisions are usually taken on a consensus basis, without recourse to a formal vote. However, on occasion, individual Executive Directors have been unable to join the Board consensus for various reasons. In 1998 and early 1999, the Canadian Executive Director did not join the Board consensus on four occasions.

- In April 1998, Canada abstained on the 4.6-per-cent salary increase for Bank staff, given that this represented a significant increase in real terms and, in comparison, Canadian public service salaries were not growing.
- In January 1999, Canada abstained on the US\$350-million single-tranched Structural Adjustment Loan for Pakistan, given a preference for disbursement of this facility in two separate tranches in order to make more effective the loan's economic policy conditionality.
- In February 1999, Canada abstained on a US\$210-million IBRD energy sector loan for the Indian state of Andhra Pradesh and opposed a US\$30-million IFC loan for and US\$5-million investment in an Indian coal mining project, as these operations were seen as inconsistent with multilateral sanctions on India which limit Bank financing to projects which support basic human needs.

Poverty assessments continued to provide valuable support for the Bank's poverty reduction efforts last year. The Bank has completed poverty assessments in 83 of 105 countries, covering approximately 90 per cent of the world's poor. However, the quality of poverty data is uneven and, to address this problem and to help improve the effectiveness of its poverty reduction work, in 1998 the World Bank shifted the direction of its poverty work in two ways:

- by changing the focus of Country Assistance Strategies, which set out the Bank's key operational priorities in individual countries, from an analysis of poverty to the formulation of strategies to reducing poverty; and
- by emphasizing the quality of the impacts of Bank projects on the poor, rather than focusing strictly on the quantity and value of poverty projects.

The Bank has also increased the prominence of social sector issues in macroeconomic stabilization programs. Good macroeconomic policy is key to boosting growth and thereby reducing poverty.

To further ensure that poverty reduction remains at the heart of the Bank's operations, the Poverty Reduction and Economic Management Network (PREM) was established as a Bank functional department in 1997. PREM, which is charged with developing an overall approach to poverty evaluation, advises Bank country teams on the poverty reduction impacts of projects. PREM is focusing much of its effort on three target countries: Bolivia, Nepal and Vietnam.

World Bank lending in almost all sectors includes activities that specifically benefit women. The Bank strengthened its gender analysis database in 1998 and increased training for country officials on gender issues. The **gender** components of all Bank projects approved in FY 1998 totalled US\$2.45 billion and were focused particularly on countries with inadequate gender-disaggregated data.

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 two years. It is now recognized that the private sector has an important role to play in addressing virtually all development challenges, from protecting the environment to assisting in privatization in transition economies. In response, business innovation programs are now under way in all of the Bank's regional offices.

In 1998, the Bank launched its new "Business Partners for Development" program with private sector partners. The aim is to enable private companies to set up in developing countries locally-based, development-oriented projects in four thematic areas: education, natural resources, water/sanitation and youth development. Funding for projects under this program is provided by the private sector, the Bank and bilateral Official Development Assistance agencies. This program has been used by natural resource companies active in the Angolan mining sector, together with the local government and NGOs, to support social sector community development projects.

The Bank is increasingly using **guarantees** to expand developing countries' access to international and domestic capital markets. Complementing products offered by the IFC and MIGA, the Bank provides partial risk and partial credit guarantees for private investment in priority projects. The economic downturn in emerging markets, however, delayed some of the Bank's guarantee operations in 1998. One of the guarantee projects approved last year, for Morocco's first independent power producer, was selected one of the fifteen best project finance deals of the year by *Project Finance* magazine. In addition to guarantees, in 1998 the Bank also provided advisory services on enhancing creditworthiness and on better management of contingent liabilities to Brazil, China, Turkey, Colombia and the Philippines.

The Bank approved two new applications of the guarantee program in IDA countries in 1998 to cover private lender country risks for which there is otherwise insufficient insurance cover: (a) partial risk guarantees to private lenders to projects which generate foreign exchange; and (b) a pilot US\$300-million program targeted at IDA countries on a policy reform path. Under (a), the guarantee (enclave) is provided by the IBRD and under (b) the guarantee is provided by the IDA.

Another example of the private sector's role in development is the growing impact of **micro-credit operations** (relatively small loans 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; it shows that the poor can be very good entrepreneurs as well as very good credit risks.

The Consultative Group on the Poorest (CGAP), which includes the World Bank, Canada and 23 other multilateral and bilateral donors, was established in 1995 to support the development and expansion of sustainable institutions which provide micro-finance services to the poor. CGAP has now entered its second stage of operations.

During its initial phase (1995-98), CGAP provided US\$26 million in grants to support micro-finance operations, as well as technical assistance for financial management training and the development of “best practices policies” for micro-finance providers. CGAP member/donors are responsible for the maintenance of a core fund to support micro-finance programs in the developing world. The Minister for International Co-operation, the Honourable Diane Marleau, approved a \$1.5-million three-year agreement between CIDA and CGAP which starts in 1999.

Micro-credit: The Consultative Group to Assist the Poorest (CGAP)

Up until the end of FY 1998, CGAP had funded 58 programs including the Women's World Bank Fund, the Vietnam Bank for the Poor and the Rural Finance Facility in South Africa. Over this period, CGAP also funded a number of capacity building initiatives, such as the Pilot Capacity Building Initiative in Africa and the global Micro-finance Network.

For CGAP's second phase, donors have adopted the following strategies:

- to support micro-finance institutional development through the creation of tools and the delivery of capacity-building activities;
- to support changes in the practices of CGAP members, especially as they relate to the management of micro-finance portfolios;
- to increase the understanding of the impact of micro-finance on poverty reduction;
- to improve the legal and regulatory framework for micro-finance; and
- to facilitate the commercialization of the micro-finance sector.

Through this work, CGAP seeks to strengthen the ability of micro-finance organizations with a proven track record and to provide assistance to the poor. The World Bank has contributed US\$30 million to the first phase of the facility and has tentatively agreed to provide a further US\$20 million for the second phase. CGAP bilateral donors have also agreed to provide additional contributions.

Good Governance and Corruption: The Bank continues to make strides in addressing the issue of governance. As mentioned above, governance issues feature prominently in Bank-supported adjustment programs. This focus is not limited to crisis economies. In addition to encouraging more effective management of borrowing member public expenditures and more participatory and open approaches in decision-making, the Bank incorporates anti-corruption measures into its own procedures. The Bank has amended its procurement guidelines to provide conditions for disqualifying bidders, temporarily or permanently, from future Bank-financed projects if it finds evidence of fraud or corruption.

Canada has also been particularly concerned about unproductive expenditures, particularly excessive military expenditures. Canada has spoken strongly at the Bank to highlight the need for the institution to be tough on countries which increase defence spending while receiving international assistance. 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 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 efforts to reduce unproductive expenditures.

The Bank's Economic Development Institute (EDI) is an important delivery instrument for training on governance and anti-corruption issues.⁴ It uses its public sector reform program to build consensus in client countries to work against corrupt practices. At the request of the Bolivian government and in partnership with Transparency International, EDI has developed a national anti-corruption strategy which focuses heavily on the drug trade and legal reform. In addition to Transparency International, EDI has developed a close relationship in its governance training work with the Parliamentary Centre of Canada.

Environmentally Sustainable Development: The Canadian government, alongside Canadian NGOs, 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 vice-presidency in 1993 has been instrumental in supporting this objective. In FY 1998, the Bank had approved

⁴ In March 1999, to improve the efficiency of the Bank's education and training programs, EDI was merged with the Bank's Learning and Leadership Centre, with the new institute working under the name of World Bank Institute (WBI).

US\$902 million of loans in support of 18 stand-alone environmental projects. In addition, 10 agricultural, water and urban development projects with a value of US\$590 million which have a strong environmental focus were also approved. Over and above the Bank's portfolio of environmental projects, the Bank requires that every project it supports be environmentally sustainable. Environmental assessments, which are discussed with the public, are designed to test the environmental credentials of each Bank project.

Cumulative active environmental projects since 1986 (including investments to reduce pollution, protect ecosystems and build environmental management capacity) levelled off in FY 1998 at US\$10.9 billion, after several years of sharp increases. This levelling off reflected the completion of several earlier environmental projects; this trend is expected to continue.

In 1998 the Bank developed a set of social and environmental "safeguard policies" designed to protect people and natural resources from any adverse impacts of development projects. In October 1998, the Bank approved a strategy designed to increase awareness of the environmental issues in the design and implementation of the Bank's energy projects.

Of particular note is the increasing work undertaken by the Bank in co-operation with other shareholders in the area of **climate change**. It is now recognized that collective global action is required to find solutions to this problem, and the Bank has stepped up its efforts to provide assistance to its borrowing member countries in helping to reduce "greenhouse gases." By the end of FY 1998, the Bank's Ozone Projects Trust Fund (established under the Multilateral Fund of the Montreal Protocol or MFMP) had approved a cumulative total of US\$264 million for 36 projects and 379 sub-projects for climate change related activities. Of this amount, US\$42 million was approved in FY 1998 and included projects that will phase out 18,000 tons of ozone-depleting substances. This brings the cumulative phase-out accomplished with MFMP support through the Bank to over 30,000 tons (or 15 per cent of chlorofluorocarbons (CFCs) consumed in all developing countries in 1994).

The Bank has also been active in developing a commercial framework for carbon emissions trading under the Conference of the Parties on Climate Change (COP) process. The Bank aims to launch a Prototype Carbon Fund (PCF) by the fall of 1999. The PCF would be the world's first commercial carbon emissions trading instrument.

In addition, the Bank continued with its traditional work as a Global Environment Facility (GEF) implementing agency. In this role, the Bank assists countries in identifying emissions abatement opportunities that are cost-effective, focusing in particular on renewable energy and energy efficiency. By the end of FY 1998, the World Bank had approved 18 GEF projects representing a total of US\$939 million in GEF resources.

Canadian Company Receives GEF Financing

Econoler International, a consortium of Dessau Soprin and Hydro Québec International, received a loan from the GEF small and medium enterprises program. The GEF financing will facilitate the financial involvement in the creation of Energy Service Companies (ESCOs) in four countries in the Maghreb area.

In January 1999, Econoler International finalized the creation of a local ESCO in Tunisia which will be 49-per-cent owned by local partners.

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 from 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. To ensure that the Bank is accountable to its clients, Canada has been one of the major supporters of the work of the **Inspection Panel**. The World Bank was the first multilateral organization to establish an independent panel to consider outside complaints. Any group that may be affected by a Bank-supported project has the right to request that the Panel investigate whether the Bank has abided by its policies and procedures. Since its inception in 1994, the Panel has received 12 formal requests for inspections. In FY 1998, it recommended investigation of all three formal requests.

In 1998 an Inspection Panel Working Group (composed of Canadian, Swiss, Dutch, Saudi, Indian and Brazilian Executive Directors) was charged with recommending means of improving the efficiency of the Panel's work. The working group submitted its draft report to the Executive Board in late 1998 and a period of public consultation on its recommendations was launched. The report will likely be formally considered by the Executive Board in April 1999.

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
- project appraisal documents (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 Bank's InfoShop is located at 1776 G Street N.W., Washington, DC 20433, USA. 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/html/pic/PIC.html>).

Getting Results

Assessing Aid Effectiveness: In November 1998, the Bank's Economics Department released a landmark study on the effectiveness of international development assistance which concluded that foreign aid has been highly successful in reducing poverty in countries which practise sound economic management and possess robust government institutions.

The study estimates that by providing an annual increase of US\$10 billion in aid to good performers, an extra 25 million people would be lifted out of poverty. Moreover, every dollar of foreign aid provided to good performers can leverage an additional two dollars of investment as aid increases the confidence of the private sector and helps to build the public services that investors need. Conversely, the study confirmed that foreign assistance delivered to countries with poor governance and economic policy records is not particularly effective; significant foreign assistance has not led to any significant improvement in poverty reduction in these countries. Little evidence was found to substantiate the notion that an inadequate policy and institutional environment can be circumvented by targeting foreign assistance to specific activities (such as health and education).

While the number of developing countries that have improved their economic management has increased significantly in the last few years, the level of foreign assistance provided by the developed world has fallen to its lowest level in over 50 years (in 1997, donor countries provided foreign aid equivalent to only 0.22 per cent of GDP, the lowest level since 1947).

Improving World Bank 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 cutting costs and saving money. They require setting clear priorities and a more efficient and strategic 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 multilateral development banks may be better placed to provide assistance.

In 1997, the Bank began to implement its three-year "Strategic Compact," a plan for the comprehensive renewal of the World Bank. Under this plan, President Wolfensohn pledged to transform the working culture of the Bank from one focusing on project development and approval to one which focuses on project implementation, quality and development effectiveness. The Strategic Compact has been underpinned by the Bank's "Cost Effectiveness Review," developed jointly with KPMG, which recommended significant changes to internal Bank procedures and staff levels. The Bank is nearing the end of its program of institutional rationalization and decentralization of its operations. A significant shift of operational staff to the field has been undertaken with the objective of moving the Bank closer to clients.

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: input indicators, process or output indicators, and 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 from project schools who found employment.

Improving the development effectiveness of the Bank's operations is crucial to ensuring that its broader policy objectives are being met. To assist the Bank in better targeting its work, considerable effort has gone into designing development impact indicators that can help track the progress of Bank operations and assess their impact on affected peoples. The framework for a performance scorecard has been developed for the monitoring performance on roughly 12 indicators in sector-specific areas, such as education, agriculture, finance and poverty reduction. Work is still ongoing to improve the indicators included in the scorecard in order to add greater specificity and clarity to assessing development outcomes.

Involving NGOs in Decision-Making

President Wolfensohn has been a major catalyst behind the Bank's outreach program with non-governmental organizations (NGOs); particular emphasis has been placed on the importance of expanding partnerships with civil society. In 1998, the Bank formalized its approach to strengthening the quality and understanding of the Bank's partnerships with the NGOs in a policy paper. The outcome of this initiative and others is that the level of NGO involvement in Bank-supported operations has continued to grow. About 50 per cent of Bank projects across all major sectors included some form of NGO participation in FY 1998.

This participation was particularly evident in the face of the emerging markets financial crisis. NGOs and representatives from civil society in the affected countries were brought together with Bank officials to discuss and learn about the impact that the economic crisis has on the poor.

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 Mario Lavoie of the International NGO Co-operation Project. In 1998, this committee took steps to decentralize its activities. While broad areas of work on participation and southern NGO capacity-building continue to be guided at the central level, greater emphasis is being placed on regional meetings, where region-specific issues and strategies for effective co-operation can best be identified and implemented.

Within Canada, NGOs have participated in a regular series of government inter-departmental meetings and conferences on such issues as multilateral debt, the environment, IDA and Africa. This consultation has proven useful for advancing Canadian interests at the Bank. The Canadian government has benefited greatly from the expertise and advice offered by Canadian NGOs on a broad range of development issues. Through this collaborative process with government, the views of Canadian NGOs have helped shape Canada's position in World Bank project and policy discussions.

IBRD Selective Capital Increase: On June 23, 1998 the World Bank Board of Governors approved a selective capital increase of 23,246 shares for five countries (Brazil, Denmark, the Republic of Korea, Spain and Turkey). This capital increase was provided in recognition of the fact that the economic position of these countries had grown since their initial capital subscriptions. The selective capital increase will provide paid-in capital of US\$168.3 million and additional callable capital of US\$2.6 billion. The selective increase, once fully subscribed, will affect Canada's ownership share in the Bank only marginally (it will decrease by four hundredths of 1 per cent).

Managing Canada's Interests at the World Bank

Finance Minister Paul Martin, as Canada's Governor of the World Bank, is responsible for the management of Canada's interests at the Bank. Minister Martin exercises his influence through exchanges of views at the Development Committee and Annual Meetings, and through discussions with the President of the World Bank. For example, at the Annual Meetings in 1998, Governors addressed the issue of how to help countries affected by the emerging market financial crisis, and discussed progress in helping the poorest countries with unsustainable debt burdens through the Initiative for Heavily Indebted Poor Countries (see above) as well as how to improve co-operation between the Bank and the Fund. Huguette Labelle, 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 Ms. Terrie O'Leary, who was elected in October 1998. Ms. O'Leary is one of 24 Executive Directors; she represents Canada and 12 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 transition countries and 12 from developed countries.

One of the important functions played by Ms. O'Leary is her oversight of the Bank's administration and spending through her membership on the Board of Director's Budget Committee. The Canadian Executive Director is one of eight Budget Committee members. The Budget Committee is responsible for approving the Bank's administrative budget. In FY 1998, the approved budget was US\$1.4 billion, which reflected a 0.1-per-cent decrease from the level in FY 1997. In addition to its role in overseeing Bank administrative operations and spending, the Budget Committee also deliberates extensively on the level of planned Bank financing operations. The Budget Committee also played an important role in the development of the Strategic Compact in 1997, which set out a comprehensive set of internal Bank reforms designed to improve efficiency. The Budget Committee will continue to play an important role in monitoring progress on the implementation of the Strategic Compact.

Canada's Office at the World Bank

During the course of the year, the office assisted Team Canada, through the Montreal World Trade Centre, in organizing 10 trade missions to the World Bank for specific sectors (e.g., infrastructure, urban development, telecoms, health, legal, energy). These missions enabled more than 150 companies to learn more about the operations of the Bank and business opportunities available through the Bank. The office also assisted the Saskatchewan Trade and Export Partnership (STEP) with the organization of several missions to Washington. In discussions with the World Bank, the STEP missions focused in particular on the agricultural sector and indigenous peoples initiatives. STEP hosted the 1998 retreat of the IFC agribusiness sector in Regina.

The office also helped the Bank's Economic Development Institute (EDI) put in place a course on urban and city management, which will be held in Toronto on May 2-14, 1999. This event will allow Canada to showcase its expertise in this area.

Organization of the Office

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 her to World Bank management.

Structure of the Executive Director's Office

Executive Director:	Ms. Terrie O'Leary
Canadian Advisor:	Ms. Kathryn Hollifield
Canadian Advisor:	Mr. François Pagé
Canadian Assistant:	Mr. John Sinclair
Canadian Assistant:	Mr. Gilles René
Phone:	(202) 458-0082; fax: (202) 477-4155
Address:	MC-12-175, 1818 H St. N.W., Washington, DC 20433, USA

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.

Canadian Procurement at the World Bank

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

In FY 1998, many Canadian firms continued to benefit from Canada's World Bank membership by accessing procurement opportunities under World Bank-financed loans. FY 1998 disbursements to Canadian companies for the supply of goods and services under Bank project loans reached US\$114 million. In addition, the World Bank estimates that US\$119 million was disbursed to Canadian companies for procurement under adjustment loans, bringing the total fiscal 1998 Bank disbursements to Canadian companies to US\$233 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 FY 1998 among all supplying countries and accounted for almost 7 per cent of total disbursements. Canadian contracts were spread across a wide variety of countries, including China, Lebanon, India, Algeria, Rwanda, Burundi and Sri Lanka.

Last year, Canadian companies received 113 contracts. The Canadian company that was most active in Bank-financed projects in 1998 was Tecsum International Limitée (Montréal), which won Bank financing for projects in Algeria, Benin, Gabon, Haiti, Madagascar and Argentina. The firm Canadex Technologies won a major contract in Argentina for the supply of computer software. CRC Sogema Inc. won a contract valued at over US\$8 million to provide a system for automating land title registration in Lebanon. Various Canadian companies also won contracts totalling US\$18 million for projects in China in the energy, environment, and transport sectors. Overall, Bank-financed projects in the energy sector offer some of the best opportunities to Canadian companies.

The 1998 results bring cumulative disbursements to Canadian companies to close to US\$3.5 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\$73 million in FY 1998.

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 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 Ms. Mary Stamp, Commercial Counsellor at the Canadian Embassy in Washington (phone (202) 682-7719; fax (202) 682-7789). Canadians can also access Bank funds through the Project Preparation Facility, the Global Environmental Facility, and the Policy and Human Resources Development Fund.

Canadian Success Stories

In recent years, Canadian mining companies continued to be the prime beneficiaries of World Bank Group financing and capital mobilization efforts. However, a number of Canadian companies from other key sectors have begun to work with the World Bank Group. For example, in FY 1998:

- Canada China Power Inc., a consortium of Acres International, AGRA Monenco and SNC-Lavalin, won a US\$4.3-million contract to supervise construction under the Shanxi Wanjiashai Yellow River Water Transfer project.
- MIGA issued a political risk guarantee worth US\$27 million to the Bank of Nova Scotia for its investment in the construction and operation of a hotel in Lima, Peru.
- CanAgro Energy Corporation of Calgary and its partner JKX received a US\$6-million convertible loan from the IFC to support a US\$19-million expansion of an existing oil field in the Republic of Georgia.

International Finance Corporation

The International Finance Corporation (IFC) 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. Given its private sector mandate and concerns for investor and client commercial confidentiality, the IFC does not report detailed procurement figures as the IBRD and IDA given their public sector role.

One of the IFC's essential functions is to mobilize financing and expert advice in favour of private sector projects in emerging markets. The Corporation has been an excellent resource for Canadian financial institutions, as well as for Canadian firms whose technical expertise is particularly suitable for these markets. In March 1999, an IFC delegation attended the annual dinner of the Association of Canada Petroleum Products in Calgary. This brought senior IFC officials in close contact with leading Canadian oil and gas companies to highlight financing opportunities through the IFC.

One of the most significant developments on the IFC front in the mid-1990s was 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 with 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. By the end of FY 1998, Canadian financial institutions had provided some US\$334 million in co-financing for IFC projects.

As with other international development institutions, the financial crisis has forced the IFC to make some major changes. Throughout the developing world, the demand for long-term private capital continues to outstrip supply. This is particularly the case as lenders pull out of risky markets. Even companies in countries once considered to have "graduated" from the IFC's programs are again seeking help from the IFC and other multilateral institutions. These companies are looking for financial support, but more importantly also seek technical support to help them in their restructuring processes.

A second challenge ahead for the IFC is to ensure that in the face of massive demand, they do not ignore the frontier countries, such as those in Sub-Saharan Africa. In today's global environment, the IFC's role in the poorest countries is more important than ever. The IFC, with the support of IDA, will work to build programs that can provide financial services for micro-enterprises as well as small- and medium-sized enterprises, and that will deepen financial infrastructure to mobilize and allocate domestic savings. The IFC will also work to develop physical infrastructure through new investments and privatization by mobilizing domestic and foreign capital.

The IFC will be meeting these challenges with new leadership. On January 1, 1999 Peter L. Woicke officially took over as the IFC's new executive vice-president.

Learning About Opportunities

Canadian firms, organizations and institutions who are interested in pursuing markets created by World Bank-financed projects 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) 682-7719), 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 also encourage Canadian companies to contact them if they are interested in competing for procurement contracts.

Canada's Financial Participation

International Bank for Reconstruction and Development (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 US\$76.5 billion. Canada was allocated 19,655 new shares valued at US\$2.37 billion. The paid-in portion of these shares is US\$71.1 million. These shares were subscribed over a five-year period ending in 1993. As of June 30, 1998, 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.

International Development Association (IDA)

In November 1998, donors agreed to a twelfth replenishment of IDA in the amount of US\$20.5 billion. This will finance IDA's lending program over the three-year period to June 30, 2002.

Canada maintained the same share as in IDA 11 of 3.75 per cent of donor contributions at a total cost of C\$607 million. To meet these obligations, Canada will issue three demand notes in 1999, 2000 and 2001. Each of these notes is then encashed over a six-year period. At the end of FY 1998, Canada's cumulative contributions to IDA (subscriptions and contributions) were the equivalent of US\$4.38 billion.

International Finance Corporation (IFC)

The Government of Canada is a strong supporter of the IFC's technical assistance and advisory (TA) programs, providing nearly US\$23 million in funding for these activities. In FY 1998, Canada contributed about US\$5.7 million to these programs. Canada's support for these programs has significantly strengthened the IFC's ability to extend its work program in countries with difficult business environments; to undertake important work on strengthening legal and regulatory infrastructure; and to help these countries to develop effective private sector financial market institutions.

Multilateral Investment Guarantee Agency (MIGA)

MIGA was established in 1988 to encourage direct foreign investment in developing countries by protecting investors from certain non-commercial risks.

On March 31, 1998, MIGA's Board of Directors agreed on the framework for the General Capital Increase (GCI). The amount of the increase will be US\$850 million, which will be divided into 78,559 shares of capital stock. Of this amount, 17.65 per cent will be paid-in and 82.35 per cent will be callable. The subscription period, over which the paid-in share will be provided, will be three years.

Under the GCI, Canada will receive an additional 2,260 shares, with a paid-in portion of US\$4,315,990 and a callable portion of US\$20,137,210. Canada's paid-in contribution to MIGA is non-budgetary. Canada's share in MIGA will stay at 2.87 per cent.

On February 12, 1999, MIGA announced a landmark increase from US\$50 million to US\$110 million in the amount of political risk coverage it may issue for foreign direct investments in a project and an increase from US\$250 million to US\$350 million in its country limit. This development will allow investors access to higher levels of risk insurance in MIGA's 127 countries of operations.

Future Challenges

The relative importance of the World Bank as financier to developing countries increases in times of financial stress. Total private capital flows to developing countries increased from US\$44 billion in 1990 to over US\$250 billion in 1997, yet fell significantly after as a result of the emerging markets financial crisis. Moreover, private capital flows to developing countries have never been evenly 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.

The Bank will face several other challenges in the coming year. As noted, the evolving situation in South East Asia and several other large emerging market economies will require increased resources and enhanced co-ordination with other international institutions and with private sectors in emerging market economies. At the same time, the Bank will need to look at more innovative ways to address the problems of the poorest countries, particularly those in Sub-Saharan Africa. President Wolfensohn's proposed Comprehensive Development Framework should help guide the Bank by providing an improved analytical tool for assessing future development priorities. The Bank will need to remain flexible in its approach to development in order to create a better sense of ownership of Bank programs within individual countries.

Without careful attention to the unique needs of individual countries, the Bank will be unable to meet its objectives of improving the quality of its operations and strengthening its development impact.

Last year the Bank saw an unprecedented increase in demand for financing; the world has not yet seen the resolution of the emerging markets financial crisis and it is likely that this demand will remain high. The Bank will remain a key player in the international effort to combat the financial crisis. However, with its responsibilities to remain an active lender comes the equally important responsibility of ensuring that it has sufficient resources to handle the job. Thus, a key challenge for the future will be ensuring the financial stability of the Bank as a development institution.

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 HIPC's and co-operation on addressing financial sector reform – are examined below.

Strengthening Financial Sectors

Problems in the financial sector, and especially the banking system, can be disruptive to growth and macroeconomic stability and can spill over regionally and internationally, as highlighted by the emerging markets financial crisis. In response to concerns about such problems, the IMF and World Bank are devoting increasing attention to financial sector issues. Discussions in both institutions in the past couple of years have focused on how they can assist member countries to establish and maintain sound financial systems.

In 1998, in response to a request from G-7 leaders at the Birmingham Summit, the two institutions developed a strategy for closer collaboration in the financial sector. The Bank and Fund have worked to define a better division of responsibilities between themselves. The Bank and Fund have also enhanced their co-operation with relevant international supervisory and regulatory agencies and have begun to involve national experts in Bank/Fund financial sector work. The persistence of deep financial problems in emerging markets underlines the importance of effective collaboration on financial sector activities.

It is important that Bank-Fund collaboration ensure that emerging financial sector problems are promptly identified, that each institution take the lead in its own areas of primary responsibility, and that duplication of activity is avoided. A special Financial Sector Liaison Committee has been established to enhance operational co-ordination on work in the financial sector in individual countries.

The Fund's involvement should relate primarily to the macroeconomic aspects of financial systems and markets. The Bank's primary concern should be with the sectoral and developmental aspects of financial systems in developing countries. It is especially important that the Fund aim to identify at an early stage systemic financial sector problems. The Bank should then follow with implementation of the restructuring of weak financial sectors.

However, the Fund has a role to play in banking system restructuring in crisis situations, particularly in countries where it has been active. Joint Fund-Bank missions in cases of financial crises would facilitate timely Bank involvement. Close collaboration is also required with other institutions and groupings working in the area of financial stability, particularly the Bank for International Settlements and the Basle Committee on Banking Supervision.

To strengthen co-ordination in the area of financial market supervision and surveillance, G-7 Finance Ministers have approved a proposal by Hans Tietmeyer, the President of the Bundesbank, to establish a Financial Stability Forum. Both the IMF and the World Bank will participate in the Forum to help national and international authorities and supervisory bodies promote international financial stability.

Canada has proposed the establishment of a peer review process in the supervision and regulation of financial institutions that would complement the other efforts in this area. The peer review process is under consideration by the IMF and the Bank.

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 World Bank, the details of a new debt initiative for HIPC countries were endorsed by the Interim and Development Committee.

The primary goal of this initiative (the "HIPC Initiative") is to ensure that HIPC countries demonstrating a track record of sustained good 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 200-250 per cent and a debt-service-to-exports ratio in the range of 20-25 per cent are judged to be the upper limit of debt sustainability for HIPC countries.

The IMF and World Bank have estimated that full implementation of the initiative could require debt relief of about US\$9.7 billion, of which more than US\$5 billion would come from multilateral institutions. After more than two years since its inception, 12 countries have been considered for debt relief under the HIPC Initiative. Debt relief has been agreed to for seven countries – Bolivia, Guyana, Burkina Faso, Côte d'Ivoire, Mali, Mozambique and Uganda – totalling about US\$3.1 billion in present-value

terms, or a reduction in nominal debt service of over US\$6 billion. Both Uganda and Bolivia have completed the HIPC process and have received debt relief totalling nearly US\$800 million in present-value terms, and more than US\$1.4 billion in debt service relief. Preliminary reviews will have also been completed for Ethiopia, Guinea-Bissau and Mauritania, which will also qualify for debt relief under the HIPC Initiative. Over the next few years, it is expected that about 20 countries will benefit from the exceptional debt relief provided by this Initiative.

In 1998, debt relief for the poorest countries re-emerged as a central issue. In the two years since its inception, there have been growing criticisms that the implementation of the HIPC Initiative has been too slow and rigid and that assistance has been insufficient to bring about true debt sustainability. As a result, there will be a review of the HIPC Initiative in 1999 at the IMF and the World Bank and debt will be a key issue for discussion among the G-7 at the Cologne Summit in June 1999. Discussions are continuing on the development of a special program of assistance for post-conflict HIPCs and on IMF gold sales to support the Fund's participation in the Initiative and ESAF programs.

Canada has been a strong supporter of reducing the unsustainable debt burdens of the poor countries. Bilateral assistance has been provided in three areas:

- Canada has forgiven all Official Development Assistance (ODA) debt from HIPCs, with the exception of Burma/Myanmar; this has amounted to \$900 million since 1978.
- Canada helped to close the financing gap in the debt relief package for Mozambique; in March 1998, Canada pledged to contribute US\$8 million, despite having no loans outstanding to this country; and
- Canada contributed an additional US\$22 million to the HIPC Trust Fund of which US\$14 million has been earmarked to ensure the full participation of the African Development Bank; of the remainder, Canada used US\$1 million to provide debt relief for Guyana.

While progress has been made under the HIPC Initiative, Canada nonetheless recognizes changes are needed and we are working with our G-7 counterparts towards securing more generous and timely debt relief. Moreover, Canada is calling on other bilateral donors to follow its example and forgive bilateral ODA debt from HIPCs. We are also examining ways in which to assist HIPCs by moving to providing up to 100 per cent debt relief under the Paris Club for eligible least developed countries.

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 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, 1998**

Member	Date of arrangement	Expiration date	Amount approved	Undrawn balance
(in SDR millions)				
Stand-by arrangements – Total			32,858.97	12,613.64
Bosnia & Herzegovina	May 29, 1998	May 28, 1999	60.60	36.36
Brazil	December 2, 1998	December 1, 2001	13,024.80	9,605.79
Cape Verde	February 20, 1998	April 19, 1999	2.10	2.10
Djibouti	April 15, 1996	March 31, 1999	8.25	1.95
El Salvador	September 23, 1998	February 22, 2000	37.68	37.68
Estonia	December 17, 1997	March 16, 1999	16.10	16.10
Korea	December 4, 1997	December 3, 2000	15,500.00	1,450.00
Latvia	October 10, 1997	April 9, 1999	33.00	33.00
Philippines	April 1, 1998	March 31, 2000	1,020.79	728.41
Thailand	August 20, 1997	June 19, 2000	2,900.00	600.00
Uruguay	June 20, 1997	March 19, 1999	125.00	10.80
Zimbabwe	June 10, 1998	June 30, 1999	130.65	91.45
EFF arrangements – Total			24,414.26	14,697.23
Argentina	February 4, 1998	February 3, 2001	2,080.00	2,080.00
Azerbaijan	December 20, 1996	December 19, 1999	58.50	17.56
Bulgaria	September 25, 1998	September 24, 2001	627.62	523.02
Croatia	March 12, 1997	March 11, 2000	353.16	324.38
Gabon	November 8, 1995	March 7, 1999	110.30	49.63
Indonesia	August 25, 1998	November 5, 2000	4,669.10	1,882.40
Jordan	February 9, 1996	February 8, 1999	238.04	35.52
Kazakhstan	July 17, 1996	July 16, 1999	309.40	154.70
Moldova	May 20, 1996	May 19, 2000	135.00	97.50
Pakistan	October 20, 1997	October 19, 2000	454.92	398.06
Panama	December 10, 1997	December 9, 2000	120.00	80.00
Peru	July 1, 1996	March 31, 1999	300.20	139.70
Russia	March 26, 1996	March 25, 2000	13,206.57	7,426.85
Ukraine	September 4, 1998	September 3, 2001	1,645.55	1,400.00
Yemen, Republic of	October 29, 1997	October 28, 2000	105.90	87.90

Active IMF Lending Arrangements – As of December 31, 1998 (cont'd)

Member	Date of arrangement	Expiration date	Amount approved	Undrawn balance
			(in SDR millions)	
ESAF arrangements – Total			3,896.85	2,123.11
Albania	May 13, 1998	May 12, 2001	35.30	29.42
Armenia	February 14, 1996	September 14, 1999	109.35	20.93
Azerbaijan	December 20, 1996	December 19, 1999	93.60	23.40
Benin	August 28, 1996	August 27, 1999	27.18	18.12
Bolivia	September 18, 1998	September 17, 2001	100.96	84.13
Burkina Faso	June 14, 1996	September 13, 1999	39.78	6.63
Cameroon	August 20, 1997	August 19, 2000	162.12	81.06
Central African Republic	July 20, 1998	July 19, 2001	49.44	41.20
Chad	September 1, 1995	August 25, 1999	49.56	8.26
Congo, Republic of	June 28, 1996	June 27, 1999	69.48	55.58
Côte d'Ivoire	March 17, 1998	March 16, 2001	285.84	161.98
Ethiopia	October 11, 1996	October 22, 1999	88.47	58.98
Gambia	June 29, 1998	June 28, 2001	20.61	17.18
Georgia	February 28, 1996	July 26, 1999	166.50	27.50
Ghana	June 30, 1995	June 29, 1999	164.40	27.40
Guinea	January 13, 1997	January 12, 2000	70.80	23.60
Guyana	July 15, 1998	July 14, 2001	53.76	44.80
Haiti	October 18, 1996	October 17, 1999	91.05	75.88
Kenya	April 26, 1996	April 25, 1999	149.55	124.63
Kyrgyz Republic	June 26, 1998	June 25, 2001	64.50	53.75
Macedonia, FYR	April 11, 1997	April 10, 2000	54.56	27.28
Madagascar	November 27, 1996	November 26, 1999	81.36	54.24
Malawi	October 18, 1995	December 16, 1999	50.96	7.64
Mali	April 10, 1996	August 5, 1999	62.01	10.34
Mongolia	July 30, 1997	July 29, 2000	33.39	27.83
Mozambique	June 21, 1996	August 24, 1999	75.60	12.60
Nicaragua	March 18, 1998	March 17, 2001	100.91	84.09
Niger	June 12, 1996	September 1, 1999	57.96	9.66
Pakistan	October 20, 1997	October 19, 2000	682.38	454.92
Rwanda	June 24, 1998	June 23, 2001	71.40	59.50
Senegal	April 20, 1998	April 19, 2001	107.01	71.34
Tajikistan	June 24, 1998	June 23, 2001	100.30	60.00
Tanzania	November 8, 1996	November 7, 1999	161.59	38.76
Uganda	November 10, 1997	November 9, 2000	100.43	43.52
Yemen, Republic of	October 29, 1997	October 28, 2000	264.75	176.75
Total			61,170.08	29,433.98

ANNEX 2**IBRD Loans and IDA Credits –
Fiscal Year 1998 (July 1, 1997 – June 30, 1998)**

	IBRD	IDA	Total	
	Amount	Amount	No.	Amount
(in millions of US dollars)				
By area				
Africa	57.4	2,816.4	59	2,873.8
East Asia and Pacific	8,847.0	776.2	45	9,623.2
South Asia	1,318.0	2,546.4	25	3,864.4
Europe and Central Asia	4,462.3	761.9	69	5,224.2
Latin America & the Caribbean	5,679.5	360.2	68	6,089.7
Middle East & North Africa	722.0	246.5	20	968.5
Total	21,086.2	7,507.8	286	28,594.0
By purpose				
Agriculture	1,480.5	1,236.9		2,717.4
Education	1,927.8	1,201.5		3,129.3
Electric power and other energy	1,115.0	889.0		2,004.0
Environment	753.8	148.3		902.1
Finance	6,103.0	141.5		6,244.5
Industry	–	73.1		73.1
Mining/other extractive	1,369.5	7.0		1,376.5
Multisector	1,187.7	669.4		1,857.1
Oil and gas	130.0	10.0		140.0
Population, health and nutrition	911.5	1,079.4		1,990.9
Public sector management	1,638.5	351.7		1,990.2
Social sector	933.9	381.6		1,315.5
Telecommunications/informatics	68.1	2.4		70.5
Transportation	2,134.7	977.8		3,112.5
Urban development	893.6	223.9		1,117.5
Water supply and sanitation	438.6	114.3		552.9
Total	21,086.2	7,507.8		28,594.0

ANNEX 3**IBRD Loans and IDA Credits to Developing Countries**

	IBRD		IDA		Total	
	No.	Amount	No.	Amount	No.	Amount
(in millions of US 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
1995-1996	129	14,656.0	127	6,864.0	256	21,520.0
1996-1997	141	14,525.0	100	4,622.0	241	19,147.0
1997-1998	151	21,086.2	135	7,507.8	286	28,594.0
Total	4,215	316,517.2	2,915	109,071.7	7,130	425,589.5

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

ANNEX 4**Disbursements by IBRD and IDA Borrowers –
Goods and Services from Canada – to June 30, 1998**

	IBRD Amount	IDA Amount	Total Amount
(in millions of US 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 (January – June)	92.8	23.4	116.2
By fiscal year			
1988 (July 1 – June 30)	182.1	47.4	229.5
1989	197.0	45.0	242.0
1990	164.0	41.0	205.0
1991	139.0	34.0	173.0
1992	131.0	38.0	169.0
1993	151.0	41.0	192.0
1994	115.0	69.0	184.0
1995	123.0	48.0	171.0
1996	169.0	56.0	225.0
1997	113.0	42.0	155.0
1998	82.0	32.0	114.0
Total	2,691.0	812.0	3,503.0
Per cent of total disbursements	2.32	1.84	2.19
Per cent of FY 1998 disbursements	2.58	2.18	2.44