

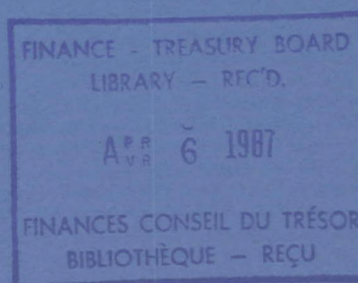


Department of Finance
Canada

Ministère des Finances
Canada

**REPORT ON OPERATIONS
UNDER
THE BRETTON WOODS
AND
RELATED AGREEMENTS ACT
1986**

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INTRODUCTORY NOTE

This report reviews the operations during 1986 of the Bretton Woods Institutions: the International Monetary Fund (IMF) and the World Bank Group, which consists of the International Bank for Reconstruction and Development (IBRD), the International Development Association (IDA), and the International Finance Corporation (IFC).

The IMF (the 'Fund') and the IBRD (the 'Bank') were established at the Bretton Woods Conference in 1944. Canadian participation in these institutions was authorized under the Bretton Woods Agreements Act of 1945. The IFC was founded in 1956 as an affiliate of the IBRD by means of separate Articles of Agreement. Canadian participation in the IDA was authorized under the International Development Association Act of 1960. In 1985, the legislation for all three institutions was consolidated under the Bretton Woods and Related Agreements Act.

The International Monetary Fund provides machinery for international consultation and collaboration on monetary, balance of payments, and exchange matters, including the elimination of exchange restrictions for current payments. Its operations are traditionally financed by subscriptions, or 'quotas', paid by member countries. These quotas generally reflect the relative importance of countries in the world economy. The IBRD and IDA have, as their main function, the extension of loans and credits to developing countries in order to enable them to finance projects which contribute to their economic development. The Bank obtains most of its funds by selling bonds in private capital markets. The IDA's resources come mainly from governments in the form of interest-free advances, enabling it to make loans on soft terms. The IFC supplements the activities of the Bank and IDA by making and encouraging investments on commercial terms in productive private enterprises in developing member countries. Membership in the Fund is a prerequisite for membership in the Bank and membership in the Bank a prerequisite for membership in the IDA and the IFC.

Figures in the section on the Fund are expressed in terms of Special Drawing Rights (SDRs), the unit of account for all IMF transactions. The SDR is defined in terms of a weighted 'basket' of 5 major currencies (the U.S. dollar, the German mark, the Japanese yen, the pound sterling, and the French franc) and its value on any given day reflects current exchange rates for those currencies. In 1986, the value of the SDR varied between U.S.\$1.11 and \$1.22.

Detailed information on the policies and operations of the IMF as well as on world financial and economic developments is contained in the following Fund publications: the International Financial Statistics, the Annual Report on Exchange Arrangements and Exchange Restrictions, the Annual Report of the Executive Board, and the World Economic Outlook.

Figures in the section on the World Bank Group refer, unless otherwise stated, to current U.S. dollars. U.S. dollars of the weight and fineness in effect on July 1, 1944 are converted to current dollars on the basis of a rate of \$1.20635 current dollars for one 1944 dollar. The figures contained in this section were obtained from financial statements of the World Bank Group.

Detailed information on the policies and operations of the World Bank Group can be found in the World Bank Annual Report and the International Finance Corporation Annual Report. Information concerning world financial and economic developments as they affect developing countries is contained in the annual World Development Report published by the World Bank.

INTERNATIONAL MONETARY FUND

The International Monetary Fund promotes the smooth functioning of the international monetary system so as to encourage international trade and capital movements and, ultimately, high rates of sustainable economic growth, high levels of employment, and the development of the productive resources of member countries. In line with these general objectives, the Fund seeks to promote stability and order in exchange rates, to foster a multilateral system of settlements for current transactions between members, and to eliminate exchange

restrictions that hinder world trade. Accordingly, the IMF provides short- and medium-term financial assistance to members faced with balance of payments difficulties, regardless of their degree of economic development, in order to enable them to correct temporary imbalances with a minimum of disruption to the international monetary system. It also provides, upon request, economic and technical assistance to member countries. During 1986 Poland and Kiribati joined the IMF bringing the total membership to 151 countries.

International Economic Environment

The world economy continued to expand at a modest rate during 1986. Inflation eased downward further to under 3 1/2 per cent and interest rates declined significantly. Despite an economic performance which might be considered quite satisfactory for the fourth year of an economic expansion, there were renewed problems arising from the situation of heavily indebted countries and new strains on the trade and payments system because of the large imbalances in current accounts. Very large adjustments occurred in exchange rates and oil prices over the course of 1986 and commodity prices weakened generally. As a consequence, many developing countries experienced declining standards of living.

For the world in total, growth was slightly slower at 2.9 per cent in 1986 than the 3.1 per cent achieved in 1985. Industrial countries expanded at 2.4 per cent, which was less than had been expected after the oil price decline, but which reflected weaker demand from developing countries, a move to greater fiscal restraint in North America and slower export growth in countries with appreciating currencies. Canada experienced the fastest growth among the major countries at 3.1 per cent.

While developing countries as a group grew at 3.5 per cent in 1986, there was considerable variation from country to country. The Asian region, which has been expanding its manufacturing exports, had a substantial 5.7 per cent increase in its GDP. Oil exporters though experienced declining GDP and the primary commodity exporting nations in Africa, only minimal increases. Latin American growth was close to 4 per cent.

World trade expanded by a relatively strong 5 per cent in 1986. However, movements in commodity prices and exchange rates were more important than real trade flows in influencing external positions. Trade and current account positions continued to show large imbalances. The U.S. current account worsened from a deficit of \$118 billion in 1985 to a deficit of \$140 billion in 1986 while the surplus in Japan rose by \$36 billion to \$86 billion and that in Germany, by over \$20 billion to \$36 billion. Other industrial countries, as a group, remained approximately in balance, but the developing countries experienced a deterioration of \$24 billion in their current account, bringing their total deficit to \$47 billion. As noted these changes reflect, in large part, the impact of terms of trade changes due to the depreciation of the dollar and the fall in oil and other commodity prices. Even though they have had a deterioration on current account, developing country exports in real terms actually rose by 8 per cent while imports fell by over 3 per cent. Similarly, there have been substantial changes in real trade flows among the major industrial countries. Japanese exports, for example, fell in volume terms in 1986 while imports rose by nearly 12 per cent.

The combination of commodity price developments, weaker growth in industrial-country markets and a relaxation of adjustment efforts in some countries led to a worsening of the international debt situation. The debt service ratio for the fifteen most heavily indebted countries rose to over 44 per cent in 1986 after having fallen from 49 per cent to 39 per cent between 1982 and 1985. Because of the decline in interest rates, the interest carrying cost of the debt remained constant at about 27 per cent of these countries' exports, even though the total debt rose from 2.8 times exports to approximately 3.5 times exports. As a result of the reduced capacity of these countries to service their debt, commercial creditors reduced their lending operations significantly.

The Fund's Resources

The resources of the IMF are largely drawn from its members and are based on a system of quotas which reflect each country's relative economic importance. The quotas are of central importance both from a political and an economic standpoint. Politically, a member's voting rights are determined by the size of its quota. Quotas are also an important determinant of membership

on the Executive Board, which manages the day-to-day operations of the Fund, and on the Ministerial Interim Committee which provides policy guidance and whose composition is patterned on that of the Executive Board. From an economic standpoint, quotas determine both the obligation to lend to the Fund and the right to draw on IMF financial resources for balance of payments support. Members' quotas are also used as the basis for determining allocations of new SDRs.¹

Members seeking financial assistance from the Fund's General Resources Account to help correct balance of payments disequilibria can draw on the 'reserve tranche' and four normal 'credit tranches', each amounting to 25 per cent of their quotas. Drawings beyond the first credit tranche are phased under 'stand-by' arrangements tied to performance criteria associated with stabilization programs. Members can also use three permanent facilities created for specific purposes: the Compensatory Financing Facility (CFF) created in 1963 to assist members in covering balance of payments problems brought on by a short-term decline in their export earnings and, more recently, temporary increases in the cost of cereal imports; the Buffer Stock Facility (BSF) created in 1969 to help members with balance of payments difficulties finance their participation in international buffer stock arrangements; and the Extended Fund Facility (EFF) created in 1974 for members suffering from balance of payments problems resulting from structural maladjustments. EFF programs cover drawings phased over periods up to three years and are also subject to performance criteria.

In addition, the Fund temporarily operated the Supplementary Financing Facility (SFF) (used in conjunction with drawings on the second and higher credit tranches and the EFF) to help members to finance payments deficits that were exceptionally large in relation to their quotas. The facility, which used resources borrowed from monetary authorities, started operating in early 1979. In order to continue providing additional conditional resources to

1. SDRs or Special Drawing Rights are reserve assets created by the IMF which can be used for settling claims among Fund members. New SDRs can only be created by a decision of the Board of Governors.

help members with large payments deficits and serious adjustment problems the SFF was superseded by the Enlarged Access Policy in 1981 which is also financed through borrowed funds and which allows drawings beyond the normal credit tranches.

In addition to facilities in the General Resources Account, members participating in the Special Drawing Rights Department have, since January 1970, been able to use SDRs in transactions with the Fund or with other participants as a means of either obtaining other members' currencies or redeeming their own. All Fund members currently participate in the SDR Department.

Activities of The Fund

During 1986 the Fund's activities were directed towards assisting debtor countries in strengthening their balance of payments positions and in ensuring that the IMF will continue to be able to assist them in resolving their financial difficulties. The sharp price declines for oil and other primary commodities led to a significant terms of trade deterioration for developing countries in 1986. This resulted in weaker export earnings and a further increase in external debt ratios. Fund lending has played an important part in efforts to strengthen the financial positions of these countries. Beyond providing temporary financing to bolster international reserves, however, a crucial aspect of Fund assistance is the implementation of corrective policy measures by the recipient country to restore financial and payments stability. These adjustment programs help to promote confidence on the part of commercial and official creditors and, thereby, act as a catalyst for new financial flows from these sources. As part of the international debt strategy the Fund, with the close involvement of the World Bank, is supporting growth-oriented adjustment efforts by a number of heavily indebted countries.

In view of the uncertainties that remain in the world economy and the serious payments difficulties that many member countries face, it was decided at the review of the Fund's Enlarged Access Policy (EAP) undertaken last year, to extend the policy for 1987. The policy is reviewed annually since the EAP, which was established in 1981 to provide increased assistance to members, is a

temporary facility. Limits on access by members under arrangements approved under the EAP during 1987 will be the same as in 1986, i.e., subject to annual limits of between 90 and 110 percent of quota, with three-year limits of between 270 and 330 per cent of quota, and cumulative limits of between 400 and 440 per cent of quota. As was the case previously, the actual limits established within these various ranges depend on the seriousness of the balance of payments needs and the strength of the adjustment effort.

In 1976, the Trust Fund was established as a temporary facility to provide balance of payments assistance on concessional terms to developing countries. Its activities were terminated in 1981. Over the period 1985-1991, the repayments on loans made by the Trust Fund will amount to about SDR 2.7 billion. In view of the economic difficulties of low-income countries it was agreed that the total amount of these resources, possibly supplemented by funds from other sources, should be used to provide balance of payments assistance on concessional terms to countries eligible for IDA resources. The Structural Adjustment Facility (SAF) was established in March 1986 for this purpose. A condition of such financing is the implementation of economic programs designed to promote structural adjustment and growth in a medium-term framework. The emphasis on structural adjustment implies the necessity of close collaboration between the Fund and the World Bank.

It is generally agreed that quota payments by member countries should be the normal source of financing for the Fund's lending activities. In recent years, however, the increase in financial assistance provided by the IMF and the more medium-term nature of its adjustment programs have placed pressure on the Fund's resources. In order to protect its liquidity position -- which must be adequate to meet the potential as well as the actual financing needs of deficit countries -- and ensure the continued effectiveness of its operations, the Fund, in recent years, has supplemented its own resources by borrowing from member countries. Since 1962 Ministers of the 'Group of Ten' (G-10) industrial countries (which includes the ten largest industrial countries in the IMF plus Switzerland) have provided a revolving line of credit under the General Arrangements to Borrow (GAB). Initially, the GAB was established to provide the IMF with temporary financing to help it meet exceptionally large

drawings by any one of the contributing countries. In 1983 the GAB was enlarged and its mandate broadened to cover drawings by any Fund member under particular circumstances. The size of the line of credit available under the GAB is now SDR 17 billion. During 1986 the Fund did not utilize any of the resources available under the GAB or the associated SDR 1.5 billion Saudi Arabian line of credit.

Since the mid-seventies, the IMF has engaged in borrowing operations to support the SFF and, more recently, the EAP. As of December 1986, outstanding Fund borrowings to finance SFF lending to members amounted to the equivalent of SDR 3.9 billion. In 1984 Saudi Arabia provided the IMF with an additional line of credit for SDR 3 billion in support of the IMF's lending activities through the EAP. This line of credit brings to SDR 11 billion the total amount provided or made available to the Fund by Saudi Arabia over the past few years in direct support of the EAP. The assistance provided by Saudi Arabia in 1984 was matched by a number of industrialized countries including Canada through the Bank for International Settlements (BIS), as well as separately by Japan and Belgium; the assistance from these other countries has been fully utilized by the Fund. Canada guaranteed SDR 180 million of the BIS loans; no cash payment by Canada was necessary. As of December 31, 1986 Canada's exposure was the full SDR 180 million.

In 1986 the Government of Japan agreed to make available to the Fund SDR 3 billion to help finance the Fund's support of adjustment programs with member countries. According to the borrowing agreement, which came into effect in December 1986, drawings on the loan may be made by the Fund over a period of four years. This period may be extended for up to two years depending upon the Fund's liquidity and borrowing needs.

Operations of the Fund

Total financial assets of the Fund as of December 31, 1986 were around SDR 106 billion. Holdings of members' currencies totalled SDR 98 billion (a large part of these assets, however, are not available for lending since they

are the currencies of members with weak external positions or low international reserves). SDRs held by the Fund amounted to almost SDR 2 billion and its gold holdings amounted to SDR 3.6 billion valued at SDR 35 per fine ounce. (The current market value of these gold assets is much greater.)

As displayed in the following table, there was a slight increase in new Fund credit extended during 1986 and a decline in outstanding Fund credit as repayments (repurchases) relating to the large expansion in Fund credit in the early 1980s exceeded drawings. Member drawings in 1986 were SDR 4.3 billion while repayments were SDR 5.7 billion. The net reduction of outstanding Fund credit of SDR 1.4 billion underscores the revolving nature of the Fund's resources and reflects the lag of about three to four years that occurs after a peak use of Fund resources. A similar trend was experienced in the mid-1970s.

Also in 1986 there was a small increase of SDR 1.4 billion in new loan commitments. This was the second consecutive year of increase and points toward a rise in drawings in 1987. The flow of funds to member countries last year included drawings on the Fund's General Resources Account (GRA) and the SFF Subsidy Account. All but SDR 185 million was drawn by developing countries.

Purchases under the GRA (mostly in drawings under conditional Fund facilities) amounted to SDR 3.0 billion compared to SDR 2.6 billion in 1985. Purchases under the reserve tranche, which a member with balance of payments difficulties can draw on automatically, increased by about SDR 200 million. Drawings under the CFF decreased for the second year in a row. No drawings were made on the buffer stock facility. The first disbursements, some SDR 82 million, were made under the newly established structural adjustment facility.

TABLE 1

FLOW OF RESOURCES THROUGH IMF 1985-86
(in millions of SDRs)

	<u>1985</u>	<u>1986</u>
1. Total Purchases	4,199	4,283
Of which:		
Reserve Tranches	185	382
Credit Tranches	2,641	3,002
(through EAP)	(1,239)	(866)
Buffer Stock	-	-
Compensatory Financing	929	567
Extended Facility	444	250
(through EAP)	(361)	(125)
Structural Adjustment	-	82
2. Total Repurchases	3,641	5,680
3. Net Purchases (1-2)	558	-1,397
4. SFF Subsidy Account	87	56
5. Total Flow of Resources (1+4)	4,286	4,339
6. Total Flow Net of Repurchases (1+4-2)	645	-1,341

As of December 31, 1986 30 stand-by arrangements and 1 extended arrangement were in effect (all with LDCs), as well as 9 structural adjustment arrangements. The total agreed to under these arrangements amounted to SDR 5.3 billion with an undrawn balance of SDR 2.9 billion. This compares to 29 stand-by and 3 extended arrangements in effect at the end of 1985 with a total of SDR 9.9 billion committed and an undrawn balance of SDR 4.7 billion.

The total amount of SDRs in circulation in 1986 was SDR 21.4 billion. Total transfers of SDRs between participants in the SDR Department, prescribed institutional holders of SDRs outside the IMF, and the Fund's General Resources Account amounted to SDR 15.7 billion during 1986 compared to SDR 15.9 billion in 1985. Transactions with designation (in which countries designated by the IMF provide their currencies, i.e. foreign exchange, to countries with balance of payments problems in exchange for SDRs) amounted to SDR 1.5 billion compared to SDR 1.9 billion in 1985. Transactions by agreement between participants (mainly for the purpose of acquiring SDRs to

pay Fund charges or make repurchases) amounted to SDR 3.4 billion compared to SDR 2.6 billion during the previous year. Transfers of SDRs from the GRA (to members drawing on the Fund and the servicing by the IMF) equalled SDR 5.6 billion last year. Transfers of SDRs to the GRA amounted to SDR 4.4 billion. Consequently, the GRA's holdings of SDRs fell last year to SDR 1.9 billion from SDR 3.0 billion at the end of 1985.

IMF Relations with Canada

Canada's quota at the IMF is SDR 2,941 million. IMF holdings of Canadian dollars as of December 31, 1986 amounted to SDR 2,535 million or 86 per cent of quota. This compares to holdings of SDR 2,455 million (84 per cent of quota) at the end of 1985. Canada's reserve position in the Fund (the amount that can be drawn on demand for balance of payments purposes) was SDR 561 million at year's end (including SDR 154.7 million in loans to the Fund under the SFF line of credit), compared to SDR 647 million at the end of 1985. SDR 3 million in purchases were made with Canadian dollars last year through the Fund. Canadian dollars were used in repurchases amounting to SDR 92 million.

In 1986 Canada received SDR 14.1 million from the Fund in interest on SFF loans and SDR 12.1 million interest on Canada's net creditor position in the General Resource Account. Charges incurred by Canada on SDRs allocated by the Fund in previous years exceeded the interest earned on SDR holdings by SDR 42.6 million.

In order to assist the Fund's operations, Canada has made available lines of credit that can be used to supplement temporarily the IMF's own resources. Canada's commitment under the General Arrangements to Borrow is the equivalent of SDR 892.5 million. As was the case in 1985, this line of credit available from Canada was not utilized by the Fund last year. In addition to participating in the GAB, Canada has also made available support for Fund activities under the SFF and the EAP. Outstanding loans by Canada in support of the SFF amounted to SDR 155 million at the end of 1986. As a participant in the financing of the Fund's Enlarged Access Policy, Canada made

available a line of credit of SDR 50 million in 1981. This amount was committed through the Bank of Canada under a stand-by facility with the BIS in favour of the IMF. The full amount of this line of credit was drawn upon in 1983 and matured in 1985. As part of the 1984 SDR 3 billion lending arrangement between the industrial countries and the IMF in support of the EAP, Canada provided, through the Bank of Canada, loan guarantees of SDR 180 million for BIS loans to the IMF. This commitment will only involve a cash payment by Canada in the event that the BIS encounters liquidity problems or the IMF is unable to repay its loans.

Canada's cumulative allocation of SDRs remained at SDR 779 million during 1986. At the end of the year Canada's holdings of SDRs amounted to SDR 202 million or 26 per cent of its cumulative allocation.

A team of IMF officials visited Ottawa in November 1986 as part of the annual consultation procedure under Article IV of the Fund's Articles of Agreement which provides for regular reviews of member countries economic policies.

In 1986, the Honourable Michael Wilson, Minister of Finance represented Canada on the IMF Board of Governors. Mr. Marcel Massé is the Canadian representative on the Fund's Executive Board and also serves as Director for Ireland, Jamaica, the Bahamas, Barbados, Belize, St. Lucia, Grenada, Antigua and Barbuda, St. Vincent, St. Christopher and Nevis, and Dominica.

The Board of Governors held its annual meeting in Washington, D.C. in September 1986. The Interim Committee, the 22 member ministerial committee which advises the Board of Governors and gives general policy guidance to the Executive Board, met twice, in Washington in April and in September.

THE WORLD BANK GROUP

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (IBRD OR WORLD BANK), AND THE INTERNATIONAL DEVELOPMENT ASSOCIATION (IDA)

Purpose and Functions

The primary function of the World Bank and IDA is to help raise living standards in the developing world by channelling long-term financial resources in support of high priority investments and needed policy and institutional reform.

The World Bank and IDA differ essentially in the sources of their funds and the terms of their loans. The World Bank obtains most of its funds by borrowing in private capital markets and accordingly it must lend at near-commercial rates. IDA relies on interest-free advances from governments for the bulk of its resources and thus can make loans on much softer terms. Otherwise, the World Bank and IDA have similar policies. The two organizations are served by the same staff.

The World Bank seeks to acquire a comprehensive picture of the position and prospects of borrowing countries' economies and their development requirements, in order to identify economic sectors and projects which should be given high priority, and to form judgements on questions relevant to a borrowing country's economic growth, economic policies and its eligibility for World Bank or IDA financing.

By giving continuous attention to the economic situation of developing member countries, the World Bank also seeks to help such countries make more effective use of all resources at their disposal, both domestic and foreign. It does so by providing assistance in formulating development policies, establishing development organizations, drawing up investment programmes for specific sectors and regions, identifying and preparing projects for financing, and encouraging the coordination of development assistance from bilateral and multilateral agencies. In recent years, the World Bank has been paying particular attention to the problems of growth and adjustment, particularly in

countries with high levels of external debt. This has meant increased emphasis on fast-disbursing lending in support of programs of policy reform and institutional strengthening.

In respect of coordination, the World Bank has been active in establishing 25 ongoing aid coordination groups for recipient countries, of which one is the Caribbean Group for Cooperation and Economic Development. It is also participating in the Indonesia aid group, which is chaired by the Netherlands. Upwards of 36 nations and more than 20 international agencies have been associated with one or more of these aid-coordinating activities. (Canada's participation in World Bank Consortia and Consultative Groups, as well as other aspects of World Bank Activity, is described in a separate section of this report entitled 'Canada and the World Bank Group'.)

The World Bank also maintains close working relationships with other international organizations concerned with development assistance, particularly the United Nations, the United Nations Development Program (UNDP), the United Nations' specialized agencies, the regional development banks and the Organization for Economic Cooperation and Development. For example, the World Bank and the United Nations exchange information and coordinate technical assistance and other development activities through a high level liaison committee, and the World Bank Group has acted as an executing agency for a number of pre-investment studies financed by the UNDP. Also, the World Bank and the IMF established in 1974 a Joint Committee of the Boards of Governors of both institutions to seek ways to improve the flow of financial assistance to developing countries. This Committee, referred to as the Development Committee, met twice during 1986 at the ministerial level.

Resources

(a) World Bank Resources

The World Bank's funds are provided primarily from three sources:

(i) Paid-in capital

Of authorized capital of 1974 SDR 78.7 billion (equivalent to U.S.\$82.1 billion as of December 31, 1986), U.S.\$82.1 billion had been subscribed and U.S.\$7.1 billion of this amount had been paid in. These amounts include the commitments member governments undertook in the following two agreements.

On January 4, 1980 agreement was reached to increase the authorized capital of the Bank by some \$40 billion over a five year period, ending in mid-1986. Of this increase, 7.5 per cent was paid in, while the rest is callable and is used to support capital market borrowings.

In addition, on August 30, 1984 agreement was reached on a selective capital increase of some \$8.4 billion, of which 8.75 per cent is to be paid-in. This capital increase was designed to allow members to realign their shares of the Bank's capital in relation to the recent IMF quota review.

(ii) Borrowing

As of December 31, 1986 the World Bank had outstanding borrowings of \$74.4 billion (of which \$4.0 billion were short-term borrowings). The net increase in long-term borrowings in 1986 was \$12.8 billion.

(iii) Net Income from Operations

As of December 31, 1986 undistributed retained earnings amounted to approximately \$6.7 billion. Net income in 1986 was \$1203.8 million as compared with \$1243.4 million in 1985.

(b) IDA Resources

IDA's loanable resources (\$43.8 billion) have been derived largely from budgetary allocations from its Part I member governments, most of which are developed countries. Total resources made available or committed by member governments, including qualified commitments, to IDA from the beginning of its operations to the end of 1986 were approximately \$40.1 billion. Other resources that have become available to IDA since its inception totalled \$3.7 billion. These were largely derived from transfers by the World Bank of a portion of its net earnings to IDA (\$2.4 billion). The remainder has come from contributions from Switzerland (which is not a member of the World Bank) and repayments by IDA borrowing countries.

A central concern during 1986 continues to be the economic plight of Sub-Saharan Africa. The World Bank is playing an important role in assisting African governments to formulate and implement programs of policy and institutional reform so as to strengthen their growth prospects. In February 1985 agreement had been reached between fourteen countries and the Bank to augment the resources of IDA with a further \$1.1 billion, to be committed over three years, under a Special Facility for Sub-Saharan Africa. This facility, administered by IDA, came into operation on July 1, 1985 and provides quick-disbursing loans in support of adjustment. By the end of 1986 the resources of the facility amounted to US dollar equivalent of \$1,776 million with 19 countries contributing to the Facility. During its first year, the Facility financed twenty-one operations in fifteen countries totalling \$535 million.

In December 1986, negotiations for the Eighth Replenishment of IDA (IDA 8) were completed. Donors agreed to a replenishment of US\$12.4 billion to fund IDA's lending over the three years FY1988-90. Between 45 and 50 per

cent of IDAs resources will be allocated to countries in Sub-Saharan Africa. A further 30 per cent will be allocated to China and India. Between US\$3 billion and US\$3.5 billion will be used to support programs of policy reform and economic adjustment in recipient countries. Donors also agreed on a shortening of the final maturities on IDA loans from the current 50 years to 40 years for the least developed countries and 35 years for the others.

Loans and Credits

(i) IBRD Loans

As of December 31, 1986 the IBRD had approved loans cumulatively totalling \$122.04 billion (net of cancellations, terminations and refunds) to 93 of its 151 members. The World Bank's loans are long term (15 to 20 year maturities at present) and carry rates of interest which approach commercial rates. Since July 1, 1982 the lending rate is determined every six months as of January 1 and July 1 based on the average cost of the pool of IBRD borrowings over the preceding six months plus a spread of 50 basis points. At the end of December 1986 the IBRD lending rate was 7.92 per cent.

(ii) IDA Credits

As at December 31, 1986 IDA had approved loans cumulatively totalling \$40.05 billion (net of cancellations, refunds and terminations) to 85 of its 134 member countries. IDA's development credits are interest-free (although there is a service charge of 3/4 of 1 per cent on disbursed and outstanding balances) and are extended for a 50-year term with 10 years' grace. On January 5, 1982 in an effort to increase the funds available to IDA and to reduce IDA's operating deficits, the Board of Directors authorized a commitment fee for IDA development credits of 0.5 per cent on undisbursed balances for IDA credits negotiated after that date.

THE INTERNATIONAL FINANCE CORPORATION (IFC)

The IFC supplements the activities of the World Bank and IDA by making and encouraging investments on commercial terms in productive private enterprises in developing member countries. With the addition of two countries in 1986, the IFC now has 130 members. The total resources available at the end of fiscal year 1986 amounted to \$2,180 million; these were derived from paid-in capital subscribed by member governments (\$601.8 million), borrowings from the World Bank (\$837.5 million) and other creditors (\$456.9 million), and the accumulated earnings (\$283.8 million) which was derived from income on operations.

IFC's commitments during calendar year 1986 amounted to \$1,137 million, bringing the total cumulative gross commitments since inception of operations to \$6,239 million in 72 countries.

GENERAL REVIEW

Total loans, credits and investments signed (net of cancellations, terminations and refunds) by the World Bank Group in 1986 and in the three preceding years were as follows:

	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>1986</u>
	(in millions of U.S. dollars)			
World Bank*	11,932	9,506	17,426	19,360
IDA	3,112	3,336	4,731	4,675
IFC	<u>654</u>	<u>409</u>	<u>616</u>	<u>1,137</u>
TOTAL	15,698	13,251	22,773	25,172

* Including loans to IFC of \$39.8 million in 1983, \$124.0 million in 1984, \$385.0 million in 1985 and \$98.1 million in 1986.

Table I annexed to this Report lists World Bank and IDA loans and credits during 1986 according to geographical area and purpose, while Table II is a historical summary of loans and credits by year, geographical area and purpose. IFC investments and commitments are listed in Table III.

CANADA AND THE WORLD BANK GROUP

Canadian Representation on World Bank Group Executive Boards

The Governor for Canada is the Honourable Michael H. Wilson, Minister of Finance, while Mrs. Margaret Catley-Carlson, President of the Canadian International Development Agency, is the Alternate Governor. In 1985 Mr. Frank Potter replaced Mr. Robert Joyce as Canada's Executive Director on the Bank's Board. Mr. Potter also represents Bahamas, Barbados, Belize, Antigua and Barbuda, Dominica, Grenada, Guyana, Ireland, Jamaica, St. Christopher and Nevis, St. Lucia and St. Vincent and the Grenadines.

Funds Subscribed or Contributed

World Bank - To the end of 1986, Canada's subscription to the World Bank's capital stock was \$2,597.5 million of which US \$229.7 million (Cdn \$271.5 million) has been paid in.

IDA - As a Part I member of IDA, Canada had to the end of 1986 paid US \$2,111.6 million (Cdn \$2,497.5 million) to the Association. By December 31, 1986 Canadian contributions to IDA 7 amounted to Cdn \$499.7 million. As well Canadian contributions to the Special Facility for Sub-Saharan Africa amounted to Cdn \$75 million in 1986.

IFC - Canada's total subscription to the IFC since it became a member of the Corporation in 1956 amounts to US \$46.0 million.

Capital Increases and Replenishment

World Bank - In August 1984, there was a selective capital increase of 70,000 shares in order to allow members to adjust their shares of the IBRD's capital in line with the recent quota review of the International Monetary Fund. The total value of the capital increase is approximately US \$8.4 billion. Canada is entitled to subscribe to an additional 1,976 shares

which for the most part allow it to maintain its share of the IBRD's capital (2.92 per cent as compared to 2.93 per cent before the capital increase). Canada completed its purchase of these shares by the end of 1986 at a cost of Cdn \$28.7 million paid-in.

IDA

- The IDA 7 negotiation completed in 1983, resulted in a US \$9 billion replenishment which will finance its lending program through to June 30, 1987. Canada's share was 4.5% or Cdn \$499.7 million (the exchange rate for national currencies was set during the negotiations). Canada made its third and final payment at the end of 1986.

In 1985, Canada had agreed to contribute Cdn \$100 million to the Special Facility for Sub-Saharan Africa. Payments were completed by the end of 1986.

Under the agreement concerning the Eighth Replenishment (IDA8) Canada agreed to contribute Cdn \$797.6 million, equivalent to 5.00 per cent of the basic replenishment of US \$11.5 billion. Payments will be completed in 1990.

IFC

- The total capital increase of US \$650 million for the IFC was adopted by the Board of Governors on December 26, 1985. Canada voted in favour of this resolution. Under the capital increase, Canada can subscribe to as much as 25,024 shares in the Corporation, valued at US \$250 million. Subscription will be entirely paid-in and will take place through instalments over a number of years. In 1986, Canada purchased the first 20 per cent of shares at a cost of Cdn \$6.9 million. Canada will have to purchase a further 40 per cent by February 1, 1988.

Maintenance of Value Adjustment

According to the Articles of Agreement of the World Bank, countries are obliged to maintain the value of certain portions of their paid-in capital subscriptions and contributions. The World Bank has not had a workable standard of value since 1978 when the formal link between the US dollar and gold was broken. The World Bank agreed not to seek payment of these obligations pending the establishment of a new standard of value for the Bank. Maintenance of value obligations do not exist for IDA contributions. In October 1986, the Executive Board agreed upon the "1974 SDR" as a successor standard of value. The 1974 SDR is a fixed US dollar equivalent of the value of the SDR prevailing in 1974 (US \$1.20635 = 1 SDR). Maintenance of value payments will be resumed on July 1, 1987.

World Bank Borrowings in Canada

From 1952 through 1971, the Bank borrowed Cdn \$150 million in the public markets of Canada and Cdn \$50 million through a private placement. From 1972 through 1981, the Bank did not borrow in Canadian dollars. Since 1982, however, the Canadian dollar has become an important source of currency diversification and has been a vehicle utilized in the Bank's currency swap operations. The Bank has raised Canadian dollars through public issues in the domestic, Euro, and Asian markets as well as through private placements. At December 31, 1986 the Bank had borrowed an aggregate principal amount of Cdn \$1,505 million of which Cdn \$1,281 million (US \$928 million) was outstanding. These amounts include the Bank's only floating rate issues denominated in a currency other than US dollars. The Bank borrowed Cdn \$200 million in 99-year floating rate notes through private placement to institutional investors, in late 1984 early 1985, then the longest maturity for any borrowings completed by the Bank.

In the official sector, the Bank of Canada, as fiscal agent of the Government of Canada, has purchased an aggregate principal amount of US \$377 million of the Bank's traditional two-year US \$ denominated offerings to central banks. At December 31, 1986, US \$53 million of these bonds were held by the Bank of Canada.

Canadian Goods and Services for Projects Financed by
the World Bank and IDA

Total identifiable expenditures in Canada by World Bank and IDA borrowers to December 31, 1986 were about US \$1.4 billion.

Canada's cumulative share of foreign procurement under World Bank loans is about 2.1 per cent which is equivalent to Canada's share of OECD member exports to the developing countries.

Canada's performance in this regard has improved steadily. In fiscal year 1986 (July 85-86) Canadian suppliers of goods and services won about 2.0 per cent of OECD member procurement. This compared with 2.5 per cent during the 1982-1985 period and about 2.0 per cent in the preceding four year period. From 1982-85, Canada's procurement was distributed in four broad categories: consultant services (41.6%), civil works (4.9%), machinery and equipment (19.9%) and semi-processed and raw materials (31.7%).

Details of the expenditures, made by year, are provided in Table IV.

Canadian Personnel

There were 194 Canadian nationals on the staff of the World Bank Group at the end of June 1985; of these, 120 were in professional positions for the World Bank and IDA, and 16 for the IFC; 52 were in non-professional positions for the World Bank and IDA, and 6 for the IFC; Canadians accounted for about 3.2 per cent of the Group's professional staff in 1985.

Canada's Contribution as a Member of Consortia and
Consultative Groups Organized by the World Bank

Canada has been a member of the Consortia for Aid to India and Pakistan since their establishment in 1958 and 1960 respectively, and is a member of Consultative Groups organized by the World Bank to review the economic situation and policies of and coordinate assistance to Bangladesh, the Caribbean (CGCED), Colombia, Guinea, India, Madagascar, Morocco, Nepal,

Pakistan, Sri Lanka, Tanzania, Tunisia, Uganda, Zaire and Zambia. Canada is also a member of the Intergovernmental Group for Indonesia.

In 1986, Canada through the Canadian International Development Agency (CIDA) participated with the World Bank in projects in Bangladesh, Burkina Faso, Cameroon, Congo, Ghana, Guinea, Honduras, Indonesia, Ivory Coast, Kenya, Malaysia, Mauritania, Morocco, Pakistan, Sri Lanka, and Zaire. Canada also participated with other donors under the co-ordination of IDA in the Cumberland Hydro Project in St. Vincent, Leeward and Windward Islands.

Canada is participating in three inter-regional initiatives funded principally by the World Bank, UNDP and a number of bilateral donors and carried out by the World Bank. The first two initiatives are the 'Energy Sector Assessment Program' and the 'Energy Management Assessment Program'. The former involves the following countries: Burkina Faso, Ghana, Honduras, Ivory Coast, Jamaica, Kenya, Senegal and Tanzania. Under the latter program, projects have been approved for Kenya, Uganda and Colombia, and are under consideration for Egypt, Ghana, Jamaica, Peru, Rwanda, Sudan and Tanzania. The third initiative is the 'Special Program for Agricultural Research - SPAR'.

Canada is also participating in the IBRD/UNDP handpump testing program in Bangladesh, Ghana, Ivory Coast and Sri Lanka.

TABLE I - TABLEAU I
World Bank Loans and IDA Credits
Prêts de la Banque mondiale et crédits de l'AID
January 1 - December 31, 1986/1^{er} janvier - 31 décembre 1986
(Millions of U.S. dollars - en millions de dollars É.-U.)

	WORLD BANK- BANQUE MONDIALE		IDA - AID		TOTAL	
	No. bre N	Amount- Montant	No. bre N	Amount- Montant	No. bre N	Amount- Montant
<u>BY AREA - RÉGION</u>						
East Africa - Afrique orientale	5	174.3	34	754.0	39	928.3
West Africa - Afrique occidentale	12	1,172.3	29	476.1	41	1,648.4
Europe, Middle East & North Africa - Europe, Moyen-Orient et Afrique du Nord	24	2,449.1	5	49.3	29	2,498.4
Latin America & Caribbean - Amérique latine et les Antilles	40	4,906.4	3	77.0	43	4,983.4
East Asia and Pacific - Asie orientale et le Pacifique	30	2,927.4	8	413.4	38	3,340.8
South Asia - Asie du sud	<u>11</u>	<u>2,106.2</u>	<u>20</u>	<u>1,197.8</u>	<u>31</u>	<u>3,304.0</u>
TOTAL	122	13,735.7	99	2,967.6	221	16,703.3
<u>BY PURPOSE - OBJET</u>						
Agriculture - Agriculture	36	4,345.0	24	737.8	61	5,082.8
Industrial Development and Finance - Développement et financement de l'industrie	9	1,880.3	4	104.5	13	1,984.8
Education - Éducation	5	375.2	9	298.2	14	673.4
Industry - Industrie	11	1,048.7	5	83.0	16	1,131.7
Energy - Énergie	2	180.0	2	62.0	4	242.0
Non-project - Hors projet	4	1,000.0	12	475.0	16	1,475.0
Population - Population	3	84.5	5	201.9	8	286.4
Power - Énergie électrique	17	2,307.0	7	278.7	24	2,585.7
Technical Assistance - Assistance technique	4	59.1	7	77.8	11	136.9
Telecommunication - Télécommunications	3	139.0	2	25.9	5	164.9
Transportation - Transport	13	1,320.7	10	237.4	23	1,558.1
Urban Development - Développement urbain	5	550.2	3	111.0	8	661.2
Water Supply and sewerage - Adduction d'eau et assainissement	<u>10</u>	<u>446.0</u>	<u>8</u>	<u>274.4</u>	<u>18</u>	<u>720.4</u>
TOTAL	122	13,735.7	99	2,967.6	221	16,703.3

TABLE II - TABLEAU II

Cumulative World Bank Loans and IDA Credits to Developing Countries
 Prêts de la Banque mondiale et crédits de l'AID cumulés aux pays en développement
 (Amounts in millions of U.S. dollars - en millions de dollars É.-U.)

	World Bank Loans		IDA Credits	
	Prêts de la Banque mondiale		Crédits de l'AID	
	No. bre N	Commitments Engagements	No. bre N	Commitments Engagements
By Fiscal Year* -				
Année financière*				
Cumulative to 1968 -				
Cumulé jusqu'en 1968	549	11,418.1	116	1,831.8
Total 1969-1973 (FY 69-73)	374	8,917.8	273	3,931.6
Total 1974-1978 (FY 74-78)	666	24,372.3	376	7,947.4
Total 1979-1983 (FY 79-83)	711	44,908.0	518	16,368.1
1983-1984 (FY-84)	129	11,947.2	106	3,575.0
1984-1985 (FY-85)	131	11,356.3	105	3,028.1
1985-1986 ((FY-86)	131	13,178.8	97	3,139.9
1986-1987 (FY-87, first half/ première demie)	38	3,433.9	29	788.1
TOTAL	2,729	129,532.4	1,620	40,610.0
By Purpose - Objet				
(Cumulative to Dec. 31, 1986 -				
Cumulé jusqu'au 31 déc. 1986)				
Agriculture and Rural Development				
- Agriculture et développement rural	625	28,246.3	612	15,287.9
Industrial Development and Finance - Développement et financement de l'industrie	270	12,891.4	63	1,029.9
Education - Éducation	165	4,781.6	155	2,703.1
Energy - Énergie	76	5,719.0	144	718.0
Industry - Industrie	224	11,609.1	74	1,793.0
Non-Project - Hors projet	75	8,182.4	67	4,216.3
Population - Population	31	718.8	30	822.5
Power - Énergie électrique	418	23,169.1	84	4,342.7
Technical Assistance -				
Assistance technique	28	262.7	77	529.2
Telecommunications - Télécom- munications	67	1,967.2	35	1,134.1
Transportation - Transport	514	22,077.2	260	5,113.0
Urban Development - Dévelop- pement urbain	91	3,875.8	37	1,109.0
Water Supply and Sewerage -				
Adduction d'eau et assainis- sement	145	6,031.8	82	1,811.3
TOTAL	2,729	129,532.4	1,620	40,610.0

* Fiscal years are those of the World Bank Group (July 1 to June 30). *Les années financières sont celles du Groupe de la Banque mondiale (du 1^{er} juillet au 30 juin).

TABLE III - TABLEAU III
Summary of IFC Operations as of December 31, 1986
Résumé des opérations de la SFI au 31 décembre 1986

	Total Commitments - Engagements totaux	Disbursements - Versements
	(Millions of U.S. dollars - en millions de dollars É.-U.)	
By Fiscal Year - Année financière		
Up to 1970	470.5	291.8
1970-1971	101.4	72.0
1971-1972	115.6	60.8
1972-1973	146.7	88.1
1973-1974	203.4	162.5
1974-1975	211.7	184.4
1975-1976	245.3	199.7
1976-1977	206.7	259.9
1977-1978	333.0	155.1
1978-1979	405.9	205.4
1979-1980	649.6	311.8
1980-1981	737.4	587.4
1981-1982	380.1	530.2
1982-1983	332.8	374.4
1983-1984	770.0	380.9
1984-1985	481.2	350.4
1985-1986	681.2	465.2
1986-1987 (July-Dec. 86) (juillet-déc. 86)	455.8	294.8
Cumulative to Dec. 1986 - Cumulé à déc. 1986	6,928.3	4,974.8
Cancellations, revaluations and write-offs - Annulations, réévaluations et amortissements	<u>689.7</u>	-
Net Commitments - Engagements nets	<u>6,238.6</u>	<u>4,974.8</u>

TABLE IV - TABLEAU IV
Disbursements by the World Bank and IDA Borrowers for
Goods and Services in Canada
Dépenses des emprunteurs de la Banque mondiale et de l'AID en
biens et services au Canada

To December 31, 1986 - au 31 décembre 1986

(In millions of U.S. dollars -
en millions de dollars É.-U.)

	<u>World Bank - Banque mondiale</u>	<u>IDA - AID</u>	<u>Total</u>
By Calendar Year - Année civile			
Cumulative to December 31, 1960 - Cumulé au 31 décembre 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 (July - Dec. 86)	<u>184.8</u>	<u>46.8</u>	<u>231.6</u>
TOTAL (juillet - déc. 86)	1081.6	321.8	1403.4
Per Cent of Total Disbursements* - Pourcentage du total des dépenses*	2.4	2.3	2.4

* Of total World Bank disbursements (\$41 billion) and IDA disbursements (\$13 billion) on goods and services originated in countries other than in the borrowing country.
Du total des dépenses correspondant à la Banque mondiale (41 milliards) et de celles liées à l'AID (13 milliards) sur les biens et services provenant des pays autres que le pays emprunteur.