



Department of Finance
Canada

Ministère des Finances
Canada

**REPORT ON OPERATIONS
UNDER
THE BRETTON WOODS
AND
RELATED AGREEMENTS ACT
1987**

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INTRODUCTORY NOTE

This report reviews the operations during 1987 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 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.

A fourth World Bank institution, the Multilateral Investment Guarantee Agency (MIGA), is expected to be established shortly. Canada ratified the Convention establishing MIGA in October, 1987. Canadian participation in MIGA was authorized through an amendment to 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 and economic policy reform programs which contribute to their economic development. The Bank obtains most of its funds by selling bonds in private capital markets. 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. MIGA's main function will be to promote private investment in developing countries through the provision of insurance against non-commercial risk. Membership in the Fund is a prerequisite for membership in the Bank and membership in the Bank a prerequisite for membership in IDA, the IFC, and MIGA.

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 1987, the value of the SDR varied between US\$1.26 and \$1.42.

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. At the end of 1987, 151 countries were members of the IMF.

International Economic Environment

Serious financial tensions in the major industrial countries dominated the world economy in 1987. These tensions, which have developed over a number of years, came to a head last year with exchange rate pressures and the sharp world-wide fall in equity prices during the last two weeks of October. The central element in last year's financial strains was the weakness in the U.S. dollar, especially against the Japanese yen and the German mark. The U.S. dollar ended 1987 at Y121 (down from Y159.10 at the end of 1986) and DM1.57 (down from DM1.94 at the end of 1986). The U.S. dollar also fell against the currencies of the other major industrial countries.

An important source of the financial strains was the large trade imbalances of the U.S., Japan and Germany. Some progress was made in reducing these imbalances in volume terms. Partly as a result of the dollar's fall, the imbalances remained large when measured in current U.S. dollars. The U.S. current account deficit increased from US\$141 billion in 1986 to

US\$156 billion in 1987. Japan's surplus was approximately US\$86 billion in both 1986 and 1987, while Germany's surplus rose to US\$44 billion in 1987 from US\$36 billion in 1986. Overall, growth in world trade slowed to 3.4 per cent in 1987 from 4.8 per cent in 1986. This reflected slower growth in U.S. imports, a decline in the volume of oil imports by the industrial countries, and the resulting adjustment by fuel exporters.

Due to significant weakness in the U.S. dollar in early 1987, the seven major industrial countries (the G-7) met in February and entered into the "Louvre Accord". Under this agreement they pledged to implement a number of policy measures to stabilize exchange rates. The accord was initially successful in stabilizing the U.S. dollar. In the aftermath of the October drop in equity prices, however, the U.S. dollar renewed its fall. As a result, a further G-7 accord to stabilize rates was entered into in late December. Exchange rates have shown more stability in the early part of 1988.

Output growth in industrial countries averaged 2.8 per cent in both 1986 and 1987 despite the financial strains experienced last year. Industrial country consumer inflation increased to 3.5 per cent as a result of firmer import prices. Interest rates fell in a number of countries early in the year, rose over the summer and early autumn, and dropped again in the aftermath of the October drop in equity prices as central banks acted upon liquidity concerns.

Economic growth in developing countries slowed on average to 3.3 per cent in 1987, although individual growth rates varied considerably. The current account deficit of developing countries improved in 1987, falling from US\$47 billion in 1986 to US\$20 billion in 1987. The debt burden of developing countries was adversely affected by rising Euro-dollar interest rates last year. The debt servicing ratio of the most heavily indebted countries increased from 51 per cent of exports in 1986 to more than 52 per cent in 1987.

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

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.

maladjustments. EFF programs cover drawings phased over periods up to three years and are also subject to performance criteria. The Fund instituted a new form of financial assistance to members, the structural adjustment facility (SAF) in 1986.

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 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 1987, the Fund responded in a number of ways to meet the needs of member countries. At the global economy level, the Fund has had to deal with the problems of the large payments imbalances between major countries, increasing protectionist pressures, and the serious economic difficulties facing many developing countries. During the past year, the Fund has made more active use of quantitative economic indicators in its procedures for multilateral surveillance of members' economic performance and policies. The central focus of surveillance has been on the international compatibility and sustainability of external payments positions in a medium-term framework.

Another important element of Fund surveillance has been trade policy. Both protectionism and liberalization measures are receiving greater attention in the Fund's regular consultations with members.

Although the current account deficit of developing countries as a group declined markedly in 1987, this largely reflected an improvement in the external position of oil exporting countries and the increased surpluses of some exporters of manufactures in Asia. The external payments position of most developing countries remained weak and constrained by the availability of financing. 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.

The Fund's efforts in this area have involved two distinct groups of indebted developing countries. One is the group of middle-income countries, largely in Latin America. These countries have a high debt burden, which is mainly owed to international commercial banks. In assisting these countries the Fund has pursued an approach involving coordinated efforts by debtor and creditor countries, commercial banks and multilateral financial institutions.

The second group are the very poorest heavily indebted countries. Their debt is largely owed to official lenders and governments. The Fund instituted a new form of financial assistance for these countries in 1986 and took an initiative last year which will substantially increase the resources available to them through this new lending program. The Structural Adjustment Facility (SAF) was established in 1986 to provide balance of payments assistance to low-income countries on concessional terms. Financing for the facility is being provided by SDR 2.7 billion of repayments on loans made through an

earlier temporary facility, the Trust Fund. Largely as a result of an initiative endorsed at the June 1987 Venice summit of industrialized countries, the Fund decided to increase significantly the resources available to the low-income countries by establishing the Enhanced Structural Adjustment Facility (ESAF). The ESAF is expected to provide new resources totaling SDR 6 billion. These resources will be made available to eligible countries under conditions which generally parallel those of the existing SAF. 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. In his February 10, 1988 Budget Speech Finance Minister Wilson indicated he would be introducing legislation which will allow Canada to support the ESAF.

In view of the difficult external conditions facing many member countries in 1987 and the prospect of continuing sizeable payments imbalances in 1988, it was decided at the review of the Fund's Enlarged Access Policy (EAP) undertaken last year, to extend the policy for 1988. 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 1988 will be the same as in 1987, i.e., subject to annual limits of between 90 and 110 per cent 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.

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 1987, 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. In late 1987, the IMF decided to renew the GAB for the five-year period December 26, 1988 to December 25, 1993.

Since the mid-seventies, the IMF has engaged in borrowing operations to support the SFF and, more recently, the EAP. As of December 1987, outstanding Fund borrowings to finance SFF and EAP lending to members amounted to the equivalent of SDR 10.4 billion. 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.

Operations of the Fund

As displayed in the following table, there was a small decrease in new Fund credit extended during 1987 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 1987 were SDR 3.9 billion while repayments were SDR 7.9 billion. The net reduction of outstanding Fund credit of SDR 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.

New loan commitments in 1987 were SDR 2.6 billion. The flow of funds to member countries last year included drawings on the Fund's General Resources Account (GRA) and the SFF Subsidy Account. In addition, outstanding loans under the structural adjustment facility increased to SDR 485 million compared to SDR 82 million at the end of 1986.

Purchases under the GRA (mostly in drawings under conditional Fund facilities) amounted to SDR 1.9 billion compared to SDR 3.0 billion in 1986. Purchases under the reserve tranche, which a member with balance of payments difficulties can draw on automatically, increased by about SDR 140 million. Drawings under the CFF doubled to SDR 1.2 billion. No drawings were made on the buffer stock facility.

TABLE 1

FLOW OF RESOURCES THROUGH IMF 1986-87
(in millions of SDRs)

	<u>1986</u>	<u>1987</u>
1. Total Purchases	4,283	3,920
Of which:		
Reserve Tranches	382	138
Credit Tranches	3,002	1,869
(through EAP)	(866)	(1,118)
Buffer Stock	-	-
Compensatory Financing	567	1,182
Extended Facility	250	246
(through EAP)	(125)	(165)
Structural Adjustment	82	485
2. Total Repurchases	5,680	7,882
3. Net Purchases (1-2)	-1,397	-3,962
4. SFF Subsidy Account	56	31
5. Total Flow of Resources (1+4)	4,339	3,951
6. Total Flow Net of Repurchases (1+4-2)	-1,341	-3,931

As of December 31, 1987, 22 stand-by arrangements and 1 extended arrangement were in effect (all with LDCs), as well as 22 structural adjustment arrangements. The total agreed to under these arrangements amounted to SDR 6.7 billion with an undrawn balance of SDR 3.4 billion. This compares to 30 stand-by, 1 extended and 9 SAF arrangements in effect at the end of 1986 with a total of SDR 5.3 billion committed and an undrawn balance of SDR 2.9 billion.

IMF Relations with Canada

Canada's quota at the IMF is SDR 2,941 million. IMF holdings of Canadian dollars as of December 31, 1987 amounted to SDR 2,596 million or 88 per cent of quota. This compares to holdings of SDR 2,535 million (86 per cent of quota) at the end of 1986. Canada's reserve position in the Fund (the amount that can be drawn on demand for balance of payments purposes) was SDR 466 million at year's end (including SDR 120 million in loans to the Fund under the SFF line of credit), compared to SDR 561 million at the end of 1986. Canadian dollars were used in repurchases amounting to SDR 82 million last year through the Fund.

In 1987, Canada received SDR 11 million from the Fund in interest on SFF loans and SDR 6.2 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 30.4 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 1986, 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 120 million at the end of 1987. 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 1987. At the end of the year Canada's holdings of SDRs amounted to SDR 281 million or 36 per cent of its cumulative allocation.

A team of IMF officials visited Ottawa in November 1987 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 1987, the Honourable Michael Wilson, Minister of Finance represented Canada on the IMF Board of Governors while Ms. Wendy Dobson, Associate Deputy Minister of the Department of Finance, is the Alternate Governor. 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. Kitts and Nevis, and Dominica.

The Board of Governors held its annual meeting in Washington, D.C. in September 1987. 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.

The World Bank has been actively participating in over 40 ongoing aid coordination groups. Of these about 32 are active in recipient countries in Sub-Saharan Africa -- 15 Consultative Groups, 17 Round Tables. Another active group is the Caribbean Group for Cooperation in Economic Development. The Bank is participating in about 7 ongoing aid groups in Asia, including the Indonesia Aid Group. Around 30 other international agencies and bilateral donors have been associated with one or more of these aid coordinating groups.

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 1987 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 US\$94.9 billion (as of December 31, 1987), US\$87.4 billion had been subscribed and US\$7.4 billion of this amount had been paid in. The remaining US\$80.0 billion is callable and used to back capital market borrowings.

The Bank's Board of Executive Directors agreed on February 19, 1988 to recommend to Governors the approval of a general capital increase of US\$76.5 billion, with US\$1.7 billion to be set aside for new members. The Bank's authorized capital will rise to US\$171.4 billion. The paid-in portion of the increase will be 3 per cent. Governors have been asked to vote on the proposal by May 5, 1988.

(ii) Borrowing

As of December 31, 1987, the World Bank had outstanding borrowings of US\$92.3 billion (of which US\$4.4 billion were short-term borrowings). The net increase in long-term borrowings in 1987 was US\$17.4 billion.

(iii) Net Income from Operations

As of December 31, 1987 undistributed retained earnings amounted to approximately US\$7.7 billion. Net income in 1987 was US\$1,137 million as compared with US\$1,203.8 million in 1986.

(b) IDA Resources

IDA's loanable resources (US\$48.4 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 1987 were approximately US\$44.5 billion. Other resources that have become available to IDA since its inception totalled US\$3.9 billion. These were largely derived from transfers by the World Bank of a portion of its net earnings to IDA (US\$2.6 billion). The remainder has come from contributions from Switzerland (which is not a member of the World Bank).

The Eighth Replenishment of IDA (IDA 8) became effective on March 4, 1988. The replenishment of US\$12.4 billion is 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. Final maturities on IDA loans have been shortened 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, 1987, the IBRD had approved loans cumulatively totalling US\$131.72 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 1987 the IBRD lending rate was 7.76 per cent.

(ii) IDA Credits

As at December 31, 1987, IDA had approved loans cumulatively totalling US\$48.3 billion (net of cancellations, refunds and terminations) to 86 of its 136 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 now extended for a 35 to 40-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 1987, the IFC now has 132 members. The total resources available at the end of fiscal year 1987 amounted to US\$2,640.6 million; these were derived from paid-in capital subscribed by member governments (US\$721.6 million), borrowings from the World Bank (US\$796.1 million) and other creditors (US\$785.3 million), and accumulated earnings (US\$337.6 million).

IFC's commitments during calendar year 1987 amounted to US\$1,157 million, bringing the total cumulative gross commitments since inception of operations to US\$7,080 million in 90 countries.

GENERAL REVIEW

Total loans, credits and investments approved by the World Bank Group in fiscal year 1987 and in the three preceding fiscal years were as follows:

	<u>1984</u>	<u>1985</u>	<u>1986</u>	<u>1987</u>
	(in millions of U.S. dollars)			
World Bank*	11,947	11,356	13,179	14,188
IDA	3,575	3,028	3,140	3,486
IFC	<u>658</u>	<u>364</u>	<u>429</u>	<u>772</u>
TOTAL	16,180	14,748	16,748	18,446

* Excludes loans to IFC of US\$100 million in FY 1984, US\$400 million in FY 1985 and US\$150 million in FY 1986 and US\$200 million in FY 1987.

Table I annexed to this Report lists World Bank and IDA loans and credits during 1987 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. Mr. Frank Potter is Canada's Executive Director on the Bank's Board. Mr. Potter also represents the 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 1987, Canada's subscription to the World Bank's capital stock was US\$2,866.0 million of which US\$249.2 million had been paid in.

IDA - As a Part I member of IDA, Canada had to the end of 1987 paid US\$2,343.8 million (Cdn\$2,822.3 million) to the Association. By December 31, 1987, Canadian contributions to IDA 8 amounted to Cdn\$324.8 million (out of a total commitment of Cdn\$797.6 million).

IFC - Canada's total subscription to the IFC since it became a member of the Corporation in 1956 amounts to US\$36.0 million, all of which is paid-in.

Capital Increases and Replenishments

World Bank - In conjunction with the IDA 8 replenishment, the United States agreed to release some of its unpurchased shares to Japan, Italy and Canada. Canada will subscribe to 1382 shares (worth US\$166.7 million), raising its share of IBRD voting power from 2.92 per cent to 3.08 per cent (equal to that of India, Italy and Saudi Arabia). The paid-in portion will be US\$14.6 million.

- If Governors approve the US\$76.5 billion general capital increase (GCI III) proposed by Executive Directors, Canada's subscription will rise by a further US\$2.4 billion.

IDA

- The IDA 8 negotiation completed in 1986, resulted in a US\$12.4 billion replenishment which will finance its lending program through to June 30, 1990. Canada's share was 5.0% of the basic replenishment of US\$11.5 billion, or Cdn\$797.6 million (the exchange rate for national currencies was set during the negotiations). Canada made its first payment at the end of 1987. Payments will be completed in 1990.

IFC

- Under the 1985 capital increase, Canada can subscribe to as many as 25,024 shares in the Corporation, valued at US\$250 million. The subscription will be entirely paid-in and will take place through instalments over a number of years. By the end of 1987, Canada had paid for 15,015 shares.

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 did not have a workable standard of value from 1978 until 1986, as the formal link between the US dollar and gold had been broken. In October 1986, the Executive Board agreed upon the "1974 SDR" as a successor standard of value to the U.S. gold dollar. 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 were resumed on July 1, 1987.

Maintenance of value obligations do not exist for IDA contributions.

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, Yankee and Asian markets as well as through private placements. At December 31, 1987, the Bank had borrowed an aggregate principal amount of Cdn\$1,805 million of which Cdn\$1,660 million (US\$1,279 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 and 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\$399.1 million of the Bank's traditional two-year US \$ denominated offerings to central banks. At December 31, 1987, US\$49 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 June 30, 1987 were about US\$1.6 billion.

Canada's performance in this regard has improved steadily. In fiscal year 1987 (July 86-June 87) Canadian suppliers of goods and services won about 2.7 per cent of OECD member procurement about the same as the average during the 1982-86 period. This compared with 2.5 per cent during the 1984-1987 period and about 2.0 per cent in the preceding four-year period. Canada's procurement performance is comparable to its share of OECD member exports to developing countries.

From 1984-87, Canada's procurement was distributed in four broad categories: consultant services (US\$52 million), civil works (US\$6 million), machinery and equipment (US\$55 million) and all other goods (US\$144 million). Details of the expenditures, made by year, are provided in Table IV.

Canadian Personnel

There were 172 Canadian nationals on the staff of the World Bank Group at the end of June 1987; of these, 126 were in professional positions and 46 in non-professional positions. Canadians accounted for about 3.0 per cent of the Group's professional staff in 1987.

CIDA Cooperation with 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 1987, 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, Kenya, Senegal and Tanzania. Under the latter program, projects have been approved for Kenya, Jamaica, Uganda and Colombia, and are under consideration for Egypt, Ghana, 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, 1987/1^{er} janvier - 31 décembre 1987

(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>						
Africa - Afrique	5	313.6	74	1,509.7	79	1,823.3
Asia - Asie	39	5,496.5	17	1,914.3	56	7,410.8
Europe, Middle East & North Africa - Europe, Moyen-Orient et Afrique du Nord	36	3,483.3	7	251.6	43	3,734.9
Latin America & Caribbean - Amérique latine et les Antilles	<u>42</u>	<u>5,044.6</u>	<u>11</u>	<u>165.4</u>	<u>53</u>	<u>5,210.0</u>
TOTAL	122	14,338.0	109	3,841.0	231	18,179.0
<u>BY PURPOSE - OBJET</u>						
Agriculture - Agriculture	21	1,924.4	31	1,334.6	52	3,259.0
Industrial Development and Finance - Développement et financement de l'industrie	11	1,670.0	5	137.5	16	1,807.5
Education - Éducation	9	373.7	9	234.6	18	608.3
Industry - Industrie	9	816.9	2	30.0	11	846.9
Energy - Énergie	5	605.4	3	98.0	8	703.4
Non-project - Hors projet	9	1,775.2	15	698.1	24	2,473.3
Population - Population	2	23.3	5	54.5	7	77.8
Power - Énergie électrique	14	2,921.5	8	120.4	22	3,041.9
Technical Assistance - Assistance technique	2	11.0	13	120.4	15	131.4
Telecommunication - Télécommunications	3	540.0	2	27.8	5	567.8
Transportation - Transport	18	1,582.2	14	704.6	32	2,286.8
Urban Development - Développement urbain	13	1,269.4	1	249.5	14	1,518.9
Water Supply and Sewerage - Adduction d'eau et assainissement	<u>6</u>	<u>825.0</u>	<u>1</u>	<u>31.0</u>	<u>7</u>	<u>856.0</u>
TOTAL	122	14,338.0	109	3,841.0	231	18,179.0

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 <u>Prêts de la Banque mondiale</u>		IDA Credits <u>Crédits de l'AID</u>	
	<u>No. bre N</u>	<u>Commitments Engagements</u>	<u>No. bre N</u>	<u>Commitments Engagements</u>
By Fiscal Year* - Année financière*				
Cumulative to 1968 - Cumulé jusqu'en 1968	549	11,418.1	116	1,831.8
Total 1969-1973 (FY/AF 69-73)	374	8,917.8	273	3,931.6
Total 1974-1978 (FY/AF 74-78)	666	24,372.3	376	7,947.4
Total 1979-1983 (FY/AF 79-83)	711	44,908.0	518	16,368.1
1983-1984 (FY/AF-84)	129	11,947.2	106	3,575.0
1984-1985 (FY/AF-85)	131	11,356.3	105	3,028.1
1985-1986 (FY/AF-86)	131	13,178.8	97	3,139.9
1986-1987 (FY/AF-87)	127	14,188.2	108	3,485.8
1987-1988 (FY/AF-88, first half/ première demie)	33	3,583.7	30	1,143.3
TOTAL	2,851	143,870.4	1,729	44,451.0
By Purpose - Objet (Cumulative to Dec. 31, 1987 - Cumulé jusqu'au 31 déc. 1987)				
Agriculture and Rural Development - Agriculture et développement rural	646	30,170.6	643	16,622.5
Industrial Development and Finance - Développement et financement de l'industrie	281	14,561.6	68	1,167.4
Education - Éducation	174	5,155.3	164	2,937.7
Energy - Énergie	81	6,324.4	47	816.0
Industry - Industrie	233	12,426.0	76	1,823.0
Non-Project - Hors projet	84	9,957.8	82	4,914.4
Population - Population	33	742.1	35	877.0
Power - Énergie électrique	432	26,090.7	92	4,463.1
Technical Assistance - Assistance technique	30	273.7	90	649.6
Telecommunications - Télécom- munications	70	2,507.2	37	1,161.9
Transportation - Transport	532	23,659.3	274	5,817.6
Urban Development - Dévelop- pement urbain	104	5,145.2	38	1,358.5
Water Supply and Sewerage - Adduction d'eau et assainis- sement	151	6,856.8	83	1,842.3
TOTAL	2,851	143,870.7	1,729	44,451.0

* 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, 1987
Résumé des opérations de la SFI au 31 décembre 1987

	Total Commitments		Disbursements	
	<u>- Engagements totaux</u>		<u>- Versements</u>	
	(Millions of U.S. dollars - en millions de dollars É.-U.)			
By Fiscal Year				
- Année financière				
Up to 1970/jusqu'à 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	997.4		493.0	
1987-1988 (July-Dec. 87) (juillet-déc. 87)	620.7		432.3	
Cumulative to Dec. 1987	8,090.6		5,605.3	
- Cumulé à déc. 1987				
Cancellations, Reevalua- tions and Write-offs				
- Annulations, réévalua- tions et amortissements	<u>1,010.3</u>		-	
Net Commitments	<u>7,080.3</u>		<u>5,605.3</u>	
- Engagements nets				

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 June 30, 1987 - au 30 juin 1987

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

	World Bank - <u>Banque mondiale</u>	IDA - <u>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	184.8	46.8	231.6
1987 (Jan.-June)/(jan.-juin)	<u>185.5</u>	<u>46.8</u>	<u>232.3</u>
TOTAL	1267.1	368.6	1635.7
Per Cent of Total Disbursements* - Pourcentage du total des dépenses*	2.2	2.0	2.2

* Of total World Bank disbursements (\$57 billion) and IDA disbursements (\$18 billion) on goods and services originated in countries other than in the borrowing country.
Du total des dépenses correspondant à la Banque mondiale (57 milliards) et de celles liées à l'AID (18 milliards) sur les biens et services provenant des pays autres que le pays emprunteur.