



Department of Finance
Canada

Ministère des Finances
Canada

**REPORT ON OPERATIONS
UNDER
THE BRETTON WOODS
AND
RELATED AGREEMENTS ACT
1988**

Canada



3 0145 00082282 2

**REPORT ON OPERATIONS
UNDER
THE BRETTON WOODS
AND
RELATED AGREEMENTS ACT
1988**

FINANCE - TREASURY BOARD
LIBRARY - REC'D.

APR 12 1989

FINANCES CONSEIL DU TRÉSOR
BIBLIOTHÈQUE - REÇU

INTRODUCTORY NOTE

This report reviews the operations during 1988 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), the International Finance Corporation (IFC) and the Multilateral Investment Guarantee Agency (MIGA).

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.

The fourth World Bank institution, the Multilateral Investment Guarantee Agency (MIGA), began operations in 1988. 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 is 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 1988, the value of the SDR varied between US\$1.28 and \$1.38.

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. 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 1988, 151 countries were members of the IMF.

International Economic Environment

Growth in the major industrial countries in 1988 turned out to be much stronger than had been expected in the wake of the instability in financial markets in late 1987. The seven major industrial countries registered growth of 4.2 per cent in 1988, as compared to 3.4 per cent in 1987. Moreover, the composition of growth was favourable to the continuation of expansion, with investment the leading sector of growth in most of the major economies. In the United States, exports led growth.

The strong growth in United States' exports contributed to an 8.5 per cent increase in world trade in 1988, the fastest growth rate in four years. External imbalances in some of the major industrial countries improved in 1988. The current account deficit of the United States declined from \$154 billion in 1987 to \$123.5 billion in 1988. The Japanese current account surplus fell from \$87 billion to \$79.5 billion. While the German surplus increased in 1988, it was at the expense of its European trading partners; the German surplus with the United States declined.

Exchange rates were generally more stable in 1988 than in the previous year, though coordinated intervention was required on several occasions to offset undesired market pressures. In the summer and again in late 1988, the United States' dollar began to appreciate against overseas currencies in response to increasing interest rates in the United States.

Inflation on a year-over-year basis increased modestly in the major industrial countries, from 2.8 in 1987 to 3.1 per cent in 1988. High capacity utilization rates, however, contributed to a strengthening of inflationary pressures later in the year. As a result monetary authorities tended to tighten policy, and interest rates rose through the year.

In the developing countries growth reached 4.4 per cent in 1988, the highest rate since 1980. The strength was concentrated in the Asian developing countries, however; elsewhere, countries with recent debt-servicing problems experienced a slackening in growth in 1988. The debt service ratio for developing countries as a group declined to 19.7 per cent of exports in 1988, compared to 20.3 per cent in 1987, though for countries experiencing recent debt-servicing difficulties the ratio increased to 32.1 per cent in 1988 from 29.6 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. Quotas are 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. Quotas also 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

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.

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 the permanent facilities created for specific purposes, including 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 rigidities. 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, which provides balance of payments assistance to low-income countries on concessional terms.

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 1988, the Fund responded in a number of ways to meet the needs of member countries. At the global economy level, the Fund continued to deal with the problems of the large payments imbalances between major countries and the serious economic difficulties facing many developing countries. During the past year, the Fund adapted its lending policies to meet the changing circumstances confronting its members. The Fund also refined the 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 is trade policy. Both protectionism and liberalization measures are receiving greater attention in the Fund's regular consultations with members.

After improving to near balance in 1987, the current account position of developing countries as a group, moved into deficit again in 1988. 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 in 1987 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 came into operation in April 1988 and 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. Legislation to enable Canada to support the ESAF was introduced in April and received Royal Assent on July 28, 1988.

The Fund also approved in June 1988 modifications designed to revitalize the Extended Fund Facility (EFF). These changes will enable greater access under the EFF within existing limits, improve the terms attached to the use of its resources, and extend, where appropriate, the duration of EFF arrangements. As well, the new Compensatory and Contingency Financing Facility (CCFF) was established in August 1988 to provide financial support when members pursuing adjustment programs face shortfalls in export earnings or other specified difficulties as previously under the Compensatory Financing Facility (CFF). In addition, the new facility makes available contingent Fund financing to help maintain the momentum of adjustment programs against external shocks.

Overdue financial obligations to the Fund (which reached some SDR 2 billion in 1988) have become a matter of increasing concern to the membership. Such arrears have consequences both for the individual country and for the IMF. Some countries have become ineligible to use Fund resources. The Fund has taken steps to protect its income position, with the financing of some of these measures shared between debtor and creditor member countries. In 1988 the Fund decided to pursue a multi-faceted approach to the arrears problem involving preventive measures and intensified collaboration where members with arrears are cooperating with the Fund. Intensified collaboration involves the coordination of financing by a support group for countries willing to undertake strong programs of economic reform, with the objective of facilitating a normalization of the country's relations with the Fund.

In view of the difficult external conditions facing many member countries in 1988 and the prospect of continuing sizeable payments imbalances in 1989, it was decided at the review of the Fund's Enlarged Access Policy (EAP) undertaken last year, to extend the policy for 1989. 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 1989 will be the same as in 1988, 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 1988, 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 1988, outstanding Fund borrowings to finance SFF and EAP lending to members amounted to the equivalent of SDR 6.7 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 1988 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 1988 were SDR 3.5 billion while repayments declined to SDR 6.7 billion. The net reduction of outstanding Fund credit 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 1988 were SDR 2.7 billion. The flow of funds to member countries last year included drawings on the Fund's General Resources Account (GRA). In addition, outstanding loans under the structural adjustment facility increased to SDR 608 million compared to SDR 485 million at the end of 1987.

Purchases under the GRA (mostly in drawings under conditional Fund facilities) amounted to SDR 1.7 billion compared to SDR 1.9 billion in 1987. Purchases under the reserve tranche, which a member with balance of payments difficulties can draw on automatically, increased by about SDR 300 million. Drawings under the CFF declined to SDR 0.7 billion from SDR 1.2 billion in 1987. No drawings were made on the buffer stock facility.

TABLE 1
FLOW OF RESOURCES THROUGH IMF 1987-88
(in millions of SDRs)

	<u>1987</u>	<u>1988</u>
1. Total Purchases	3,838	3,481
Of which:		
Reserve Tranches	138	448
Credit Tranches	1,869	1,713
(through EAP)	(1,118)	(674)
Buffer Stock	-	-
Compensatory Financing	1,182	730
Extended Facility	246	225
(through EAP)	(165)	(50)
Structural Adjustment Facility	403	205
Enhanced Structural Adjustment Facility	-	160
2. Total Repurchases	7,882	6,671
3. Net Purchases (1-2)	-4,044	-3,190

As of December 31, 1988, 16 stand-by arrangements and 2 extended arrangements were in effect (all with LDCs), as well as 24 structural adjustment (SAF) and 6 ESAF arrangements. The total agreed to under these arrangements amounted to SDR 5.9 billion with an undrawn balance of SDR 3.6 billion. This compares to 22 stand-by, 2 extended and 22 SAF arrangements in effect at the end of 1987 with a total of SDR 6.7 billion committed and an undrawn balance of SDR 3.4 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, 1988 amounted to SDR 2,595 million or 88 per cent of quota. This compares to holdings of SDR 2,596 million (88 per cent of quota) at the end of 1987. Canada's reserve position in the Fund (the amount that can be drawn on demand for balance of payments purposes) was SDR 375 million at year's end (including SDR 30 million in loans to the Fund under the SFF line of credit), compared to SDR 466 million at the end of 1987. This change reflects in part repayment of loans previously made to the IMF. SDR 26 million in purchases were made with Canadian dollars last year through the Fund. Canadian dollars were used in repurchases amounting to SDR 66 million.

In 1988, Canada received SDR 9.8 million from the Fund in interest on SFF loans and SDR 3 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 14.7 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 1987, 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 30 million at the end of 1988. 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 also put in place in 1988 arrangements to lend SDR 300 million to the ESAF Trust and to provide grants for an interest subsidy which will apply to ESAF loans. As part of the international collaborative approach to deal with overdue financial obligations to the IMF and the World Bank, Canada organized and chaired a support group in 1988 to help Guyana regularize its relations with the Fund and the Bank.

Canada's cumulative allocation of SDRs remained at SDR 779 million during 1988. At the end of the year Canada's holdings of SDRs amounted to SDR 1.0 billion or 131 per cent of its cumulative allocation.

A team of IMF officials visited Ottawa in November 1988 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.

The Honourable Michael Wilson, Minister of Finance represents 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 Berlin (West), Federal Republic of Germany in September 1988. 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 Berlin 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. Other current operational emphases include: poverty alleviation, food security in Sub-Saharan Africa, human resources (including women in development), environment and private sector development/public sector management.

The World Bank has been actively participating in 35 ongoing aid coordination groups. Of these 34 are active in recipient countries in Sub-Saharan Africa -- 17 Consultative Groups, 17 Round Tables. Another active group is the Caribbean Group for Cooperation in Economic Development. The Bank is also participating in 6 ongoing aid groups in Asia, including the Indonesia Aid Group. Several 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.

In 1974, the World Bank and the IMF established 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 1988, in Washington in April and in Berlin in September.

Resources

(a) World Bank Resources

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

(i) Paid-in capital

The Bank's Board of Governors approved on April 27, 1988, 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 is now US\$171.4 billion. The paid-in portion of the increase is 3 per cent.

Of authorized capital of US\$171.4 billion (as of December 31, 1988), US\$102.0 billion had been subscribed and US\$8.1 billion of this amount had been paid in. The remaining US\$93.9 billion is callable and used to back capital market borrowings.

(ii) Borrowing

As of December 31, 1988, the World Bank had outstanding borrowings of US\$86.6 billion (of which US\$4.8 billion were short-term borrowings). The net decrease in long-term borrowings in 1988 was US\$6.7 billion.

(iii) Net Income from Operations

As of December 31, 1988 undistributed retained earnings amounted to approximately US\$8.7 billion. Net income in 1988 was US \$1,004 million as compared with US\$1,113 million in 1987.

(b) IDA Resources

IDA's loanable resources (US\$60.3 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 1988 were approximately US\$54.4 billion. Other resources that have become available to IDA since its inception totalled US\$5.9 billion, consisting of transfers by the World Bank of a portion of its net earnings to IDA (US\$2.5 billion), IDA repayments (US\$2.2 billion), Special Africa Facility (\$1.2 billion) and contributions from Switzerland (\$51 million).

The Eighth Replenishment of IDA (IDA 8) became effective on March 4, 1988. The replenishment of US\$12.4 billion covers IDA's lending over the three years FY1988-90. Between 45 and 50 per cent of IDA's resources is being allocated to countries in Sub-Saharan Africa. A further 30 per cent is being allocated to China and India. Between US\$3 billion and US\$3.5 billion is being 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.

Negotiations on the Ninth Replenishment of IDA began with a first meeting on February 14-15, 1989. IDA 9 will cover the three years FY1991-93.

Loans and Credits

(i) IBRD Loans

As of December 31, 1988, the IBRD had approved loans cumulatively totalling US\$159 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 1988 the IBRD lending rate was 7.65 per cent.

(ii) IDA Credits

As at December 31, 1988, IDA had approved loans cumulatively totalling US\$49 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 one country in 1988, the IFC now has 133 members. The total resources available at the end of fiscal year 1988 amounted to US\$3,335.4 million; these were derived from paid-in capital subscribed by member governments (US\$850.2 million), borrowings from the World Bank (US\$770.8 million) and other creditors (US\$1,276.2 million), and accumulated earnings (US\$438.2 million).

IFC's commitments during calendar year 1988 amounted to US\$1,098.3 million*, bringing the total cumulative gross commitments since inception of operations to US\$8,569.7 million.

* For IFC's own account. Gross commitments for the year came to US\$1,160.8 million.

THE MULTILATERAL INVESTMENT GUARANTEE AGENCY (MIGA)

The international convention establishing MIGA took effect on April 12, 1988. At its inaugural meeting on June 8, 1988, the agency's governing council elected a board of directors, adopted by-laws, and agreed upon terms and conditions for future members.

MIGA's mandate is to promote private foreign direct investment in developing countries, primarily through the issuance of non-commercial risk insurance (i.e., transfer of earnings and capital, expropriation, war and civil disturbance, and breach of contract). Its programmes will also include technical and advisory services, and the provision of advice on investment policies. MIGA is meant to complement the activities of the World Bank, the International Finance Corporation (IFC), national investment insurance programmes, private insurance and other agencies.

The Convention establishing MIGA provides for an initial capitalization of SDR 1 billion (US\$1.082 billion) with a paid-in portion of 20% (10% in cash, 10% in demand notes) and a callable portion of 80%. Canada's subscription is SDR 29.65 million (US\$32.1 million) of which US\$3.2 million is paid-in in cash and US\$3.2 million in notes. The cash and note payments were made during 1988.

GENERAL REVIEW

Total loans, credits and investments approved by the World Bank Group in fiscal year 1988 and in the three preceding fiscal years were as follows:

	<u>1985</u>	<u>1986</u>	<u>1987</u>	<u>1988</u>
	(in millions of U.S. dollars)			
World Bank*	11,356	13,179	14,188	14,762
IDA	3,028	3,140	3,486	4,459
IFC	<u>937</u>	<u>1,156</u>	<u>920</u>	<u>1,270</u>
TOTAL	14,748	16,748	18,446	20,491

* Excludes loans to IFC of 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 1988 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 Group's Executive Boards. Mr. Potter also represents the Bahamas, Barbados, Belize, Antigua and Barbuda, Dominica, Grenada, Guyana, Ireland, Jamaica, St. Kitts and Nevis, St. Lucia and St. Vincent and the Grenadines.

Funds Subscribed or Contributed

World Bank - To the end of 1988, Canada's subscription to the World Bank's capital stock was US\$3,032.8 million of which US\$263.8 million had been paid in.

IDA - As a Part I member of IDA, Canada had to the end of 1988 paid US\$2,619.9 million (Cdn\$3,054.6 million) to the Association. By December 31, 1988, Canadian contributions to IDA 8 amounted to Cdn\$557.2 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\$36.1 million, all of which is paid-in.

MIGA - Canada took up its subscription to MIGA's capital stock in 1988. Of the US\$32.1 million subscription, US\$6.4 million was paid in, half in cash and half in demand notes.

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. Accordingly, in April of 1988, Canada subscribed to 1382 shares (worth

US\$166.7 million), raising its share of IBRD potential 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 was US\$14.6 million.

- Under the US\$76.5 billion general capital increase (GCI III), Canada's subscription will rise by a further 19,655 shares valued at US\$2.37 billion. The paid-in portion will be US\$71.1 million. These shares will be subscribed over the next five years.

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 is to be entirely paid-in and takes place through instalments over a number of years. By the end of 1988, Canada had paid for 20,135 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 or subscriptions to the capital stocks of MIGA and the IFC.

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, 1988, the Bank had borrowed an aggregate principal amount of Cdn\$2,105 million of which Cdn\$1,754 million (US\$1,468 million), including Cdn \$200 million 99 year floating rate notes, was outstanding.

In the official sector, the Bank of Canada, as fiscal agent of the Government of Canada, has purchased an aggregate principal amount of US\$427.1 million of the Bank's traditional two-year US \$ denominated offerings to central banks. At December 31, 1988, 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, 1988 were about US\$1.87 billion.

Canada's performance in this regard has improved steadily. In fiscal year 1988 (July 87-June 88), Canadian suppliers of goods and services were paid about 3 per cent of OECD member procurement-about the same as the average

during the FY 1985-87 period, and above the 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 FY 1984-87, Canada's procurement was distributed in four broad categories: consultant services (US\$261.6 million), civil works (US\$41.5 million), machinery and equipment (US\$352.1 million) and all other goods (US\$260.2 million).^{1/} 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 1988; 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 1988.

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, Bolivia, the Caribbean (CGCED), Costa Rica, Ghana, Guinea, India, Madagascar, Morocco, Nepal, Pakistan, Senegal, Sri Lanka, Tanzania, Tunisia, Uganda, Zaire and Zambia.

In 1988, the Canadian International Development Agency (CIDA) participated with the World Bank in projects in Bangladesh, Burkina Faso, Cameroon, Congo, Ghana, Indonesia, Ivory Coast, Kenya, Malaysia, Mauritania, Nepal, Pakistan, Peru, Senegal, Sri Lanka, and Zaire..

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

1/ This became an additional fourth category in FY 1987.

Canada is now participating in the IBRD/UNDP social dimensions of adjustment program, in order to measure the effects of structural adjustment on and to minimize any adverse consequences for the most vulnerable groups in countries carrying out structural adjustment programs.

Canada has pledged financial support through CIDA for the World Bank-led "Special Program of Assistance" for low-income debt-distressed countries in Sub-Saharan Africa. The SPA is designed to provide debt relief and growth-oriented import financing for these African countries, particularly those implementing strong adjustment programs. The program establishes a framework for assistance on a case-by-case basis through concessional debt relief, additional concessional flows from IDA, increased co-financing of adjustment operations, and increased resources from the IMF's Enhanced Structural Adjustment Facility (ESAF).

TABLE I - TABLEAU I

World Bank Loans and IDA Credits

Prêts de la Banque mondiale et crédits de l'IDA

January 1 - December 31, 1988/1^{er} janvier - 31 décembre 1988

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

	WORLD BANK- BANQUE MONDIALE		IDA		TOTAL	
	<u>No. bre</u> N	<u>Amount- Montant</u>	<u>No. bre</u> N	<u>Amount- Montant</u>	<u>No. bre</u> N	<u>Amount- Montant</u>
<u>BY AREA - RÉGION</u>						
Africa - Afrique	13	1,756.9	71	2,291.8	84	4,048.7
Asia - Asie	38	5,295.8	24	1,727.7	62	7,023.5
Europe, Middle East & North Africa - Europe, Moyen-Orient et Afrique du Nord	26	2,887.0	5	223.6	31	3,110.6
Latin America & Caribbean - Amérique latine et les Antilles	<u>37</u>	<u>4,851.0</u>	<u>3</u>	<u>106.7</u>	<u>40</u>	<u>4,957.7</u>
TOTAL	114	14,790.7	103	4,349.8	217	19,140.5
<u>BY PURPOSE - OBJET</u>						
Agriculture - Agriculture	24	2,490.1	29	1,343.2	53	3,833.3
Industrial Development and Finance - Développement et financement de l'industrie	5	890.0	6	241.8	11	1,131.8
Education - Éducation	11	671.9	10	246.1	21	918.0
Industry - Industrie	15	2,768.5	4	161.9	19	2,930.4
Energy - Énergie	1	295.0	0	0.0	1	2,095.0
Non-project - Hors projet	9	1,850.0	10	683.2	19	2,533.2
Population - Population	1	109.0	7	174.8	8	283.8
Power - Énergie électrique	12	1,842.0	4	127.1	16	1,969.1
Technical Assistance - Assistance technique	1	28.0	11.0	153.0	12	181.0
Telecommunication - Télécommunications	1	36.0	0.2	35.0	3	71.0
Transportation - Transport	18	1,839.2	9	452.9	27	2,292.1
Urban Development - Développement urbain	11	1,489.5	9	673.8	20	2,163.3
Water Supply and Sewerage - Adduction d'eau et assainissement	<u>5</u>	<u>481.5</u>	<u>2</u>	<u>57.0</u>	<u>7</u>	<u>538.5</u>
TOTAL	114	14,790.7	103	4,349.8	217	19,140.5

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

	WORLD BANK- BANQUE MONDIALE		IDA		TOTAL	
	<u>No. bre</u> <u>N</u>	<u>Amount- Montant</u>	<u>No. bre</u> <u>N</u>	<u>Amount- Montant</u>	<u>No. bre</u> <u>N</u>	<u>Amount- Montant</u>
By Fiscal Year* - Année financière*						
Cumulative to 1968 - Cumulé jusqu'en 1968	549	11,418.1	116	1,831.8	665	13,249.9
Total 1969-1973 (FY/AF 69-73)	374	8,917.8	273	3,931.6	647	12,849.4
Total 1974-1978 (FY/AF 74-78)	666	24,372.3	376	7,947.4	1,042	32,319.7
Total 1979-1983 (FY/AF 79-83)	711	44,908.0	518	16,368.1	1,229	61,276.1
1983-1984 (FY/AF-84)	129	11,947.2	106	3,575.0	235	15,522.2
1984-1985 (FY/AF-85)	131	11,356.3	105	3,028.1	236	14,384.4
1985-1986 (FY/AF-86)	131	13,178.8	97	3,139.9	228	16,318.7
1986-1987 (FY/AF-87)	127	14,188.2	108	3,485.8	235	17,674.0
1987-1988 (FY/AF-88)	118	14,762.0	99	4,458.7	217	19,220.7
1988-1989 (FY/AF-89, first half/ premier semestre)	29	3,642.5	34	1,034.4	63	4,676.9
	2,965	158,691.3	1,832	48,800.0	4,797	207,492.1
TOTAL						
By Purpose - Objet (Cumulative to Dec. 31, 1988 - Cumulé jusqu'au 31 déc. 1988)						
Agriculture and Rural Development - Agriculture et développement rural	670	32,660.7	672	17,965.7	1,342	50,626.4
Industrial Development and Finance - Développement et financement de l'industrie	286	15,451.6	74	1,409.2	360	16,860.8
Education - Éducation	185	3,827.2	174	3,183.8	359	9,011.0
Energy - Énergie	82	6,649.5	47	816.0	129	7,465.5
Industry - Industrie	248	15,194.5	80	1,984.9	328	17,179.4
Non-Project - Hors projet	92	11,792.4	92	5,597.6	184	17,390.0
Population - Population	34	851.1	42	1,051.8	76	1,902.9
Power - Énergie électrique	444	27,932.7	96	4,590.2	540	32,522.9
Technical Assistance - Assistance technique	32	316.9	101	802.6	133	1,119.5
Telecommunications - Télécom- munications	71	2,543.2	39	1,196.9	110	3,740.1
Transportation - Transport	550	25,498.5	283	6,270.5	833	31,769.0
Urban Development - Dévelop- pement urbain	115	6,634.7	47	2,032.3	162	8,667.0
Water Supply and Sewerage - Adduction d'eau et assainis- sement	156	7,338.3	85	1,899.3	241	9,237.6
TOTAL	2,965	158,691.3	1,832	48,800.8	4,797	207,492.1

* 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, 1988
Résumé des opérations de la SFI au 31 décembre 1988

By Fiscal Year - Année financière	Total Commitments - Engagements totaux	Disbursements - Versements
	(Millions of U.S. dollars - en millions de dollars É.-U.)	
Up to 1970/jusqu'à 1970	476.5	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	1,160.8**	872.0*(gross)
(July-Dec. 88)		
(juillet-déc. 88)	858.7	570.3(gross brut)
Cumulative to Dec. 1988	9,495.4	<u>6,615.3</u>
- Cumulé à déc. 1988		
Cancellations, Reevalua- tions and Write-offs		
- Annulations, réévalua- tions et amortissements	(1,227.5)	
Net Commitments	<u>8,267.9</u>	
- Engagements nets		

* \$762 million disbursed for IFC's account,
\$110 million for financial institutions

** Gross commitments for FY88: \$1,160.8 million
Net commitments for FY88: \$1,098.34 million

* Dépenses de 762 millions de dollars pour le compte de la SFI, 110 millions pour les institutions financières.

** Engagements bruts de l'exercice 1988: 1,160.8 millions de dollars
Engagements nets de l'exercice 1988: 1,098.34 millions de dollars

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'IDA en
biens et services au Canada

To June 30, 1988 - au 30 juin 1988
(In millions of U.S. dollars -
en millions de dollars É.-U.)

	World Bank - <u>Banque mondiale</u>	<u>IDA</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)	185.5	46.8	232.3
1988 FY (to June 30, 1988) - AF 1988 (au 30 juin 1988)	<u>182.1</u>	<u>47.4</u>	<u>229.5</u>
TOTAL	1449.2	416.0	1865.2
Per Cent of Total Disbursements* - Pourcentage du total des dépenses*	2.2	2.0	4.2
Per Cent of FY 1988 disbursements Pourcentage des dépenses de l'exercice 1988	2.7	1.9	4.6

* 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 de dollars) et de celles liées à l'IDA (18 milliards de dollars) sur les biens et services provenant des pays autres que le pays emprunteur.