Department of Finance Canada
Ministère des Finances Canada

REPORT ON OPERATIONS UNDER THE BRETTON WOODS AND RELATED AGREEMENTS ACT 1989

Canada

REPORT ON OPERATIONS UNDER THE BRETTON WOODS AND RELATED AGREEMENTS ACT 1989

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 1989, the value of the SDR varied between US$1.24 and $1.32.

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 1989, 152 countries were members of the IMF.

International Economic Environment

Economic growth in the major industrial countries slowed to an estimated pace[1] of 3.4 per cent, compared with 4.5 per cent in the previous year. The macroeconomic performance of major industrial countries showed increasing signs of divergence over 1989; while growth in Canada, the United States and the United Kingdom has slowed substantially during the past year, it has remained relatively strong in Japan and continental Europe.

1. Complete data for 1989 not available at time of writing. Preliminary estimates, if available, have been quoted. In other cases estimates are based on the IMF World Economic Outlook, October 1989.

The volume of world trade expanded a further 7 per cent in 1989, down somewhat from the 9 per cent posted in 1988, but the second fastest growth rate in the past five years. External imbalances among the major industrial countries posted mixed results in 1989. The United States current account deficit (preliminary national accounts basis) declined to US$113 billion from US$127 billion in 1988. The Japanese current account surplus fell to US $56.7 billion, down from US $79.6 billion in 1988. An export boom served to widen the West German current account surplus to US$52.7 billion, from US$47.5 billion in 1988. Most of the growth came at the expense of its European trading partners.

Over the first half of the year the US dollar experienced unexpected strength, appreciating against most major currencies. This prompted several rounds of concerted intervention to offset market pressures, which were deemed by authorities as inconsistent with adjustment in external imbalances. The Deutsche Mark posted dramatic gains over the final quarter of the year, as capital inflows increased in response to the significant tightening of German monetary policy in October and West Germany's enhanced economic prospects following the opening of the Berlin Wall in November. The Japanese yen remained weak throughout the year.

1989 saw an intensification of inflationary pressures as capacity limits were strained in a number of countries. Additionally, several countries experienced tax related increases in inflation, including Japan, West Germany and Italy. Consumer prices in the seven major industrial countries rose from 3.1 per cent in 1988 to 4.3 per cent in 1989. Authorities in several G-7 countries tightened monetary policy significantly throughout the year to counter inflationary pressures.

In developing countries growth slowed from 4.2 per cent in 1988 to 2.9 per cent in 1989. The major factor contributing to this decline was a slowing in Asian growth from 9.2 to 6.1 per cent, and further slowing of growth in countries with recent debt-servicing problems. The debt-service ratio for developing countries as a group declined to 17 per cent of exports in 1989, compared to 19.9 per cent in the previous year. For countries with recent debt-servicing difficulties the ratio declined to 30.1 per cent from 33.2 per cent in 1988.

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]

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 of 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. These concessional resources were further expanded in 1988 with the creation of the Enhanced Structural Adjustment Facility (ESAF), supported by loans from donor governments.

---

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.

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 1989, 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 debt-servicing difficulties facing many developing countries. During the past year, the Fund adapted its lending policies to meet the changing circumstances confronting its members. In view of the need to ensure that vulnerable sectors of the population are protected when countries implement strong corrective policies, the Fund is now giving more weight to poverty and income - distribution issues in helping countries design their growth-oriented adjustment programs.

The Fund also continued to contribute to the process of policy coordination and multilateral surveillance of members' economic performance and policies through its work on key economic indicators. The central focus of surveillance has been on the international compatibility and sustainability of external payments positions in a medium-term framework. The Fund has now expanded its surveillance to include structural policies. 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.

Output growth in developing countries slowed in 1989 reflecting the rise in world interest rates, the weakening of some commodity prices and the slower growth of export markets. The current account position of developing countries as a group remained in deficit in 1989. External financing constraints persisted for many developing countries. 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.

Although considerable progress has been achieved since the emergence of the debt crisis seven years ago, continuing debt difficulties have hampered stable economic growth in many countries. It became evident in 1989 that the debt strategy needed to be reinforced to strengthen economic growth and expand debt-servicing capacity. This recognition led the Fund to adopt in May 1989 new guidelines for its lending policies to facilitate a reduction in outstanding debt and debt-service payments. Since sustained adjustment remains critical to debtor countries' prospects of achieving growth, access to capital markets and a return of flight capital, Fund financial support of debt and debt-service reduction is linked to the adoption of programs that include strong elements of structural reform. Costa Rica, the Philippines, Mexico and Venezuela adopted programs in 1989 under the new guidelines.

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. In March 1989 the Fund increased the potential maximum access to the SAF to 70 per cent of quota, from 63.5 per cent.

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. It was agreed last year to extend the period during which members could seek commitments under the ESAF to November 1990. 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 received Royal Assent on July 28, 1988.

The Fund approved in 1988 modifications designed to revitalize the Extended Fund Facility (EFF). These changes 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 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 SDR 3 billion in 1989) 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" of donor countries for countries with protracted arrears 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 1989 and the prospect of continuing sizeable payments imbalances in 1990, it was decided at last year's review of the Fund's Enlarged Access Policy (EAP) to extend the policy until June 30, 1990. 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 will be the same as in 1989, 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. The EAP will be reviewed in light of the outcome of the Ninth General Review of Quotas. Since the Fund's Executive Board was unable to complete its work on the Ninth Review before the end of 1989, it was agreed to finish the review in 1990.

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 1989, 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 1989, outstanding Fund borrowings to finance SFF and EAP lending to members amounted to the equivalent of SDR 3.4 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

Fund arrangements with member countries reached 51 in 1989, a record level. As of December 31, 1989, 18 stand-by arrangements and 4 extended arrangements were in effect (all with LDCs), as well as 18 structural adjustment (SAF) and 11 ESAF arrangements. The total committed resources under these arrangements amounted to SDR 14.1 billion with an undrawn balance of SDR 10.1 billion. This compares to 16 stand-by, 2 extended and 24 SAF and 6 ESAF arrangements in effect at the end of 1988 with a total of SDR 5.9 billion committed and an undrawn balance of SDR 3.6 billion.

As displayed in the following table, there was an increase in new Fund credit extended during 1989, although outstanding Fund credit decreased as repayments (repurchases) relating to the large expansion in Fund credit in the early 1980s exceeded drawings. Member drawings in 1989 were SDR 4.3 billion while repayments declined to SDR 5.9 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 rose sharply in 1989, by SDR 9.6 billion. The flow of funds to member countries last year included drawings on the Fund's General Resources Account (GRA). In addition, commitments under the structural adjustment facility (SAF) and the ESAF increased by SDR 719 million.

Purchases under the GRA (mostly in drawings under conditional Fund facilities) amounted to SDR 3.5 billion compared to SDR 2.7 billion in 1988. Drawings under the Fund's medium-term facility (EFF) rose by SDR 1 billion as members moved to correct their structural balance of payments difficulties. Drawings under the new compensatory and contingent financing facility (CCFF) increased to SDR 0.8 billion. No drawings were made on the buffer stock facility.

TABLE 1

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

	1988	1989
1. Total Purchases	3,033	4,270
Of which:		
Credit Tranches	1,713	1,471
(through EAP)	(674)	(268)
Buffer Stock	-	-
Compensatory Financing	730	808
Extended Facility	225	1,199
(through EAP)	(50)	(148)
Structural Adjustment Facility	205	352
Enhanced Structural Adjustment Facility	160	440
2. Total Repurchases	6,671	5,913
3. Net Purchases (1-2)	-3,190	-1,643

IMF Relations with Canada

Canada's quota at the IMF is SDR 2,941 million. IMF holdings of Canadian dollars as of December 31, 1989 amounted to SDR 2,539 million or 86 per cent of quota. This compares to holdings of SDR 2,595 million (88 per cent of quota) at the end of 1988. Canada's reserve position in the Fund (the amount that can be drawn on demand for balance of payments purposes) was SDR 402 million at year's end, compared to SDR 375 million at the end of 1988. This change reflects in part repayment of loans previously made to the IMF. SDR 84 million in purchases were made with Canadian dollars last year through the Fund. Canadian dollars were used in repurchases amounting to SDR 53 million.

In 1989, Canada received SDR 7.8 million from the Fund in interest on SFF loans and SDR 5.8 million in interest on Canada's net creditor position in the General Resource Account. Interest earned by Canada on SDR holdings reached SDR 18.8 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 1988, 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. All outstanding loans (SDR 30 million) by Canada in support of the SFF were repaid by the IMF in 1989. 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.

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 continued to chair a support group organized in 1988 to help Guyana regularize its relations with the Fund and the World Bank.

Canada's cumulative allocation of SDRs remained at SDR 779 million during 1989. At the end of the year Canada's holdings of SDRs amounted to SDR 1.0 billion or 134 per cent of its cumulative allocation.

A team of IMF officials visited Ottawa in October 1989 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 H. Wilson, Minister of Finance, represents Canada on the IMF Board of Governors. Mr. Scott Clark replaced Mr. Marcel Massé as 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 1989. 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 Honourable Michael H. Wilson became Chairman of the Committee on January 3, 1990.

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 increasing emphasis on fast-disbursing lending in support of programs of policy reform, the strengthening of economic institutions, and greater reliance on market mechanisms. Increasingly, the protection of the environment has become a priority concern in the design of World Bank and IDA lending programs. Other current operational emphases include: private sector development/public sector management, poverty alleviation, and human resources (including women in development).

In 1989, the World Bank has actively participated in about 35 ongoing aid coordination groups for individual borrowing countries. Of these, about 25 were for recipient countries in Sub-Saharan Africa -- 9 Consultative Groups, 4 Round Table and 12 Donor Meetings. Region-wide donor groups active last year include the Caribbean Group for Cooperation in Economic Development and Donor Meetings on the Special Program of Assistance for Africa. The Bank participated in about 8 ongoing aid groups in Asia, including the Indonesia Aid Group (IGGI). 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 recent years, the World Bank has moved to integrate environmental criteria into its lending programs. It has begun to prepare environmental guidelines for a number of sectors including tropical rainforests, and will publish a comprehensive annual report on the environmental aspects of its activities. The agreement on the Ninth Replenishment of IDA (IDA9) concluded in December 1989 reflected donor concerns that environmental criteria be firmly integrated into IDA lending programs.

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 in Washington in April and September in 1989.

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, 1989), US$121.5 billion had been subscribed and US$8.8 billion of this amount had been paid-in. The remaining US$112.7 billion is callable and used to back capital market borrowings.

(ii) Borrowing

As of December 31, 1989, the World Bank had outstanding borrowings of US$85.4 billion (of which US$5.0 billion were short-term borrowings). The net decrease in long-term borrowings in 1989 was US$4.7 billion.

(iii) Net Income from Operations

As of December 31, 1989 undistributed retained earnings amounted to approximately US$9.7 billion. Net income in 1989 was US $1,094 million as compared with US$1,004 million in 1988.

(b) IDA Resources

IDA's loanable resources (US$59.7 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 1989 were approximately US$54.6 billion. Other resources that have become available to IDA since its inception totalled US$5.1 billion, consisting of transfers of a portion of World Bank net earnings to IDA (US$2.5 billion), IDA repayments (US$1.1 billion), Special Africa Facility ($1.2 billion), Special Fund (US$246 million) and contributions from Switzerland ($51 million).

Negotiations on the Ninth Replenishment of IDA (IDA9) were completed in December 1989. The replenishment of US$15.2 billion will provide resources for three years beginning in July 1990. IDA currently provides credits for 35 to 40 years to borrowing countries at zero per cent interest with 0.75 per cent service charge and a 10 year grace period before the start of principal repayments. The majority of the people in IDA-borrowing countries have annual incomes of less than US$ 400. The share of IDA9 resources going to sub-Saharan Africa will be maintained at a level of 45-50 per cent provided that this continues to be warranted by economic policy performance. The share of quick-disbursing lending to support economic adjustment policies will continue to be 25 per cent.

Loans and Credits

(i) IBRD Loans

As of December 31, 1989, the IBRD had approved loans cumulatively totalling US$164 billion[1] (net of cancellations, terminations and refunds) to 93 of its 152 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

1. Excluding loans made to the International Finance Corporation (IFC).

January 1 and July 1. Since July 1, 1989, this rate is based on the average cost of the pool of IBRD borrowings over the preceding six months allocated to lending plus a spread of 50 basis points. At the end of December 1989 the IBRD lending rate was 7.74 per cent.

(ii) IDA Credits

On June 30, 1987, the Executive Directors decided to denominate IDA credits in Special Drawing Rights (SDRs). As at December 31, 1989, IDA had approved loans cumulatively totalling US$55 billion equivalent (net of cancellations, refunds and terminations) to 86 of its 138 member countries. IDA's development credits are interest-free (although there is a service charge of 0.75 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 Executive Directors authorized a commitment fee for IDA development credits of 0.5 per cent on undisbursed balances for IDA credits negotiated after that date. On April 21, 1988, the Executive Directors decided that the IDA commitment charge for all credits, including those already approved and carrying a commitment charge, would be variable within a range of 0%-0.5%. This fee is subject to annual review by the Executive Directors. For the period July 1, 1989 - June 30, 1990, the commitment fee is zero.

On September 23, 1988, the Executive Directors approved the use of future repayments to increase the Association's commitment authority in advance of their actual receipt. They approved annual commitments of SDR525 million for the period fiscal 1989-93 in the form of advance commitments. In addition, annual allocations may be made out of investment earnings on donor contributions and the 10 per cent of reflows that are not being committed in advance. The latter represents a supplement to IDA resources that is being made available in the form of fast-disbursing adjustment credits to support IDA-only countries that are not only implementing agreed adjustment programs, but have outstanding IBRD debt, as well.

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. The IFC now has 133 members. The total resources available at the end of fiscal year 1989 amounted to US$3,837.9 million; these were derived from paid-in capital subscribed by member governments (US$948.0 million), borrowings from the World Bank (US$694.5 million) and other creditors (US$1,560.7 million), and accumulated earnings (US$634.7 million).

IFC's commitments through the first half of fiscal year 1990 amounted to US$517.0 million*, bringing the total cumulative gross commitments since inception of operations to US$10,671.9 million.

---

* US$449.6 million for IFC's own account and US$67.4 million for participants. Gross commitments for the year came to US$1,518.2 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 1989 and in the three preceding fiscal years were as follows:

	1986	1987	1988	1989
	(in millions of U.S. dollars)			
World Bank*	13,179	14,188	14,762	16,433
IDA	3,140	3,486	4,459	4,934
IFC	1,156	920	1,270	1,709
TOTAL	17,475	18,594	20,491	23,076

* Excludes loans to IFC of US$150 million in FY 1986 and US$200 million in FY 1987 and US$200 million in FY 1988, and US$179 million in FY 1989.

Table I annexed to this Report lists World Bank and IDA loans and credits during 1989 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 Mr. Marcel Massé, 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 1989, Canada's subscription to the World Bank's capital stock was US$3,311.9 million of which US$272.2 million had been paid-in.

IDA - As a Part I member of IDA, Canada had to the end of 1989 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 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 9 negotiation completed in December 1989, resulted in a US$15.2 billion replenishment which will finance its lending program through to June 30, 1993. Canada's share was 4.75% of the basic replenishment, or Cdn$828.6 million (the exchange rate for national currencies was set during the negotiations). Canada will make its first payment during 1990. Payments will be completed in 1993.

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, 1989, the Bank had borrowed an aggregate principal amount of Cdn$2,455 million of which Cdn$1,892 million (US$1,632 million), 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$465.6 million of the Bank's traditional two-year US dollar-denominated offerings to central banks. At December 31, 1989, US$66.5 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, 1989 were about US$2.11 billion.

Canada's performance in this regard has improved steadily. In fiscal year 1989 (July 88-June 89), 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 1986-89 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.

For FY 1985-89, IBRD and IDA disbursements for Canadian goods and services were distributed in four broad categories: consultant services (US$251.4 million), civil works (US$37.2 million), machinery and equipment (US$347.3 million) and all other goods (US$393.2 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, Guatemala, Guinea, Honduras, India, Madagascar, Morocco, Nepal, Pakistan, Philippines, Senegal, Sri Lanka, Tanzania, Tunisia, Uganda, Zaire and Zambia.

In 1989, the Canadian International Development Agency (CIDA) participated with the World Bank in projects in Bangladesh, Burkina Faso, Cameroon, China, Congo, Ghana, Indonesia, Ivory Coast, Jamaica, Kenya, Malaysia, Mauritania, Nepal, Pakistan, Peru, Philippines, St. Lucia, Senegal, Sri Lanka, Thailand, Tanzania, Uganda and Zaire.

---

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

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

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

World Banks Loans and IDA Credits

January 1 - December 31, 1989

(Millions of U.S. dollars)

	WORLD BANK		IDA		TOTAL	
	No.	Amount	No.	Amount	No.	Amount
BY AREA						
Africa	16	990.3	61	2,328.1	77	3,318.4
Asia	43	6,349.1	22	2,160.1	65	8,509.2
Europe, Middle East & North Africa	36	4,255.0	7	286.2	43	4,541.2
Latin America & Caribbean	36	5,812.9	5	149.2	41	5,962.1
TOTAL	131	17,407.3	95	4,923.6	226	22,330.9
BY PURPOSE						
Agriculture	27	2,134.1	22		49	3,432.6
Industrial Development				1,298.2		
and Finance	13	2,718.0	5	171.6	18	2,889.6
Education	7	408.5	9	470.6	16	879.1
Industry	14	2,113.2	6	218.0	20	2,331.2
Energy	4	549.5	2	31.2	6	580.7
Non-project	8	2,192.0	9	627.7	17	2,819.7
Population	10	764.6	4	223.0	14	987.6
Power	14	3,155.5	7	463.0	21	3,618.5
Technical Assistance	4	27.0	6	57.3	10	84.5
Telecommunication	3	198.1	3	127.9	6	326.0
Transportation	12	1,424.0	11	759.4	23	2,183.4
Urban Development	9	1,109.5	6	200.7	15	1,310.2
Water Supply and Sewerage	6	613.0	5	274.8	11	887.8
TOTAL	131	17,407.3	95	4,923.6	226	22,330.9

TABLE II

World Bank Loans and IDA Credits to Developing Countries

(Millions of U.S. dollars)

	WORLD BANK		IDA		TOTAL	
	No.	Amount	No.	Amount	No.	Amount
By Fiscal Year*						
Cummulative to 1968	549	11,418.1	116	1,831.8	665	13,249.9
Total 1969-1973 (FY 69-73)	374	8,917.8	273	3,931.6	647	12,849.4
Total 1974-1978 (FY 74-78)	666	24,372.3	376	7,947.4	1,042	32,319.7
Total 1979-1983 (FY 79-83)	711	44,908.0	518	16,368.1	1,229	61,276.1
1983-1984 (FY-84)	129	11,947.2	106	3,575.0	235	15,522.2
1984-1985 (FY-85)	131	11,356.3	105	3,028.1	236	14,384.4
1985-1986 (FY-86)	131	13,178.8	97	3,139.9	228	16,318.7
1986-1987 (FY-87)	127	14,188.2	108	3,485.8	235	17,674.0
1987-1988 (FY-88)	118	14,762.0	99	4,458.7	217	19,220.7
1988-1989 (FY-89)	119	16,433.2	106	4,933.6	225	21,366.8
1989-1990 (FY-90, first half)	41	4,616.6	23	1,024.4	64	5,641.0
	3,096	176,098.6	1,927	53,724.4	5,023	229,823.0
TOTAL						
By Purpose (Cumulative to Dec. 31, 1989)						
Agriculture and Rural Development	697	34,795.1	694	19,263.9	1,391	54,059.0
Industrial Development and Finance	299	18,169.6	79	1,580.8	378	19,750.4
Education	192	6,235.7	183	3,654.4	375	9,890.1
Industry	262	17,307.7	86	2,202.9	348	19,510.6
Oil, Gas & Coal	86	7,199.0	49	847.2	135	8,046.2
Non-Project	100	13,984.4	101	6,225.3	201	20,209.7
Population, Health & Nutrition	44	1,615.7	46	1,274.8	90	2,890.5
Power	458	31,088.2	103	5,053.2	561	36,141.4
Technical Assistance	36	343.9	107	860.1	143	1,204.0
Telecommunications	74	2,741.3	42	1,324.8	116	4,066.1
Transportation	562	26,922.5	294	7,029.9	856	33,952.4
Urban Development	124	7,744.2	53	2,233.0	177	9,977.2
Water Supply and Sewerage	162	7,951.3	90	2,174.1	252	10,125.4
TOTAL	3,096	176,098.6	1,927	53,724.4	5,023	229,823.0

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

TABLE III
Summary of IFC Operations as of December 31, 1989

	Total Commitments (millions of U.S. dollars)	Disbursements
By Fiscal Year		
Up to 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	871.5
1988-1989	1,518.2*	1,077.3**
(July-Dec. 89)	517.0	480.8
Cumulative to Dec. 1989	10,671.9	7,602.6
Cancellations, Reevaluations and Write-offs	1,340.8	
Net Commitments	9,331.1	

* Gross commitments for FY89: 1,518.2 million. Net commitments for FY89: $1204.0 million

** $850.0 million disbursed for IFC's accounts, $207.3 million for participants.

TABLE IV
Disbursement by the World Bank and IDA Borrowers for
Goods and Services in Canada
To June 30, 1989

(in millions of U.S. dollars)

	WORLD BANK	IDA	Total
By Calendar Year			
Cumulative to December 1960	133.5		133.5
1961	8.2	-	8.2
1962	3.7	-	3.7
1963	5.6	7.4	13.0
1964	4.7	1.8	6.5
1965	5.4	2.7	8.1
1966	11.6	5.3	16.9
1967	13.2	14.7	27.9
1968	6.3	7.8	14.1
1969	4.4	11.0	15.4
1970	7.6	1.3	8.9
1971	11.1	2.2	13.3
1972	10.5	2.3	12.8
1973	12.4	5.1	17.5
1974	15.8	8.4	24.2
1975	22.1	15.0	37.1
1976	25.7	10.8	36.5
1977	34.5	4.8	39.3
1978	26.1	5.5	31.6
1979	44.4	8.1	52.5
1980	51.5	7.8	59.3
1981	94.3	14.5	108.8
1982	75.0	17.6	92.6
1983	82.3	26.9	109.2
1984	92.6	54.3	146.9
1985	94.3	39.7	134.0
1986	184.8	46.8	231.6
1987 (Jan.-June)	185.5	46.8	232.3
1988 FY 1988 (to June 30, 1988)	182.1	47.4	229.5
FY 1989	197.0	45.0	242.0
TOTAL	1,646.2	461.0	2,107.2
Per Cent of Total Disbursements	2.3	2.0	2.2
Per Cent of FY 1989 disbursements	2.9	1.8	2.6