

**REPORT ON OPERATIONS
UNDER
THE BRETTON WOODS
AND
RELATED AGREEMENTS ACT
1992**

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INTRODUCTORY NOTE

This report reviews the operations during 1992 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 contributions, 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 five 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 1992, the value of the SDR varied between Cdn\$1.63 and Cdn\$1.84.

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 may be found in the World Bank, IFC, and MIGA Annual Reports. 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

I. Objectives and Benefits

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, as the central institution in the international monetary system, the IMF has two main roles. First, it exercises a surveillance function by monitoring the economic policies of all of its member countries, assessing the consistency of policies among countries and providing policy advice. Second, it provides short- and medium-term financial assistance to members faced with balance of payments difficulties, regardless of their degree of economic development, to enable them to correct temporary imbalances with a minimum of disruption to the international monetary system. For the most part, financing is provided on the condition that countries undertake policy reforms designed to eliminate the imbalances within their economies, thus creating the conditions necessary for sustainable non-inflationary growth.

The provision of financing from the IMF, and the additional financing which an arrangement with the Fund often attracts from other sources,

enables the adjustment to be made less abruptly than might otherwise be the case. It also provides, upon request, technical assistance to member countries. At the end of 1992, 173 countries were members of the IMF.

As an open economy that has been dependent throughout its history on foreign trade and financial flows, Canada has a major stake in an open, stable international monetary system. Membership in the IMF gives Canada a vehicle for promoting a stable world financial system, and orderly and early policy adjustment by countries experiencing unsustainable external imbalances. These are goals which Canada has always supported and which continue to influence Canadian policies toward the Fund.

IMF membership conveys a number of specific benefits to Canada:

- Canada's voting share in the IMF of about 3 per cent gives Canada direct representation on the Fund's Executive Board and its ministerial policy advisory committee, the Interim Committee. This representation allows Canada to have an important input into the formulation of policies on major international economic and financial issues.
- Through its regular country economic reviews, the IMF provides an opportunity to exchange ideas and judgements on the economic policies and performance of Canada and other member countries.
- If necessary, Canada could turn to the IMF for financial assistance in the event of severe balance of payments problems.

- Canada earns a return in the form of interest payments on its financial position in the IMF.
- For those countries using Fund resources, the conditionality associated with IMF-supported programs provides a reinforcing mechanism to ensure that Canada's bilateral assistance is used effectively and in concert with sound economic policies. This conditionality also creates a capacity for debtor countries to repay their obligations to Canada.

II. International Economic Environment

In 1992, real world output expanded at an estimated rate of 0.8 per cent*, up from 0.1 per cent in 1991. Growth was modest in the industrial economies and in the developing countries of Africa and the Western Hemisphere. The highest growth rates were observed in Asia and the Middle East, while the former centrally planned economies posted negative growth rates. World growth remains sluggish compared with the expansion in the second half of the 1980s when world output growth exceeded 3 per cent every year.

The pace of growth within the industrial countries was uneven. The North American economies gained modest momentum as the year progressed, while growth slowed and turned negative in Japan and in some major European economies. In Japan, past asset price deflation continued to have profound effects in the financial and non-financial sectors of the economy. European

* Complete data for 1992 were not available at the time of writing. Estimates are based on the IMF World Economic Outlook, December 1992.

growth was constrained by high interest rates in Germany, associated with a unification-related investment boom and tight monetary policy. Although European interest rates were headed down by the end of the year, the industrial sectors in most of these countries will continue to feel the effects of high rates through at least the first half of 1993.

Inflation in the industrial countries fell to an estimated 3.2 per cent in 1992 from 4.4 per cent in 1991. Within the Group of Seven (G-7) countries, inflation fell in every country except Germany. Canada's inflation rate in 1992, 1.5 per cent, was the lowest among the G-7.

Financial markets within Europe experienced a great deal of turbulence last year. In September, speculative pressures forced the withdrawal of the British pound and the Italian lira from the Exchange Rate Mechanism (ERM) of the European Monetary System, and other currencies were devalued within the ERM. Pressures on these currencies and others have created doubts about whether Economic and Monetary Union will be achieved within the time frame set out in the Maastricht Treaty. The transition period is proving more difficult than anticipated. Nevertheless, ERM members remain confident that union is achievable.

By contrast, currency fluctuations among the three largest economies in the world were more subdued. The U.S. dollar weakened against the deutschemark up to September but then strengthened, ending the year at 1.61 DM, slightly higher than it began. The dollar also fluctuated somewhat against the yen. It hit a high of 134.5 yen in April and ended the year at 124.6 yen, virtually unchanged from its starting point.

Current account imbalances among the major industrialized economies failed to improve significantly in 1992. The most noteworthy change was a sharp widening of Japan's current account surplus, in line with weak domestic growth and a pick-up in U.S. demand. Current account deficits widened in both Germany and the United States. The IMF expects the volume of world trade to expand by more than 5 per cent in 1993, following estimated growth of 4 per cent last year.

Growth in the developing countries was mixed during 1992. The greatest strength was in the Middle East as oil production in Iraq and Kuwait returned to more normal levels and investment activity was undertaken for reconstruction following the Gulf War. Asia's growth was boosted by the fast-growing eastern Asian economies, including China, Hong Kong and Korea. In the Western Hemisphere, growth in the developing countries was less than half that in Asia, although countries that have persisted with structural and macroeconomic reforms have performed better than others. On average, the African countries posted the lowest rates of growth, in part because of severe drought, but also reflecting some slippage in their reform efforts.

Inflation continued to be a problem in the developing countries, especially in the Western Hemisphere. Region-wide averages, of course, mask huge differences among countries. Generally inflation rates were lower where macroeconomic reforms have been adopted and maintained.

The former centrally-planned economies continue to struggle with their transition to market economies. The countries of eastern European have

made significant progress towards market-based reforms. Poland led the way in 1990 and most of the other countries implemented comprehensive stabilization programs in 1991. The authorities have, for the most part, adhered to the reform measures outlined in these programs. As a result, many of the adverse effects of central planning have been reversed through price and trade liberalization, monetary and fiscal restraint, and structural reforms. Although output fell in all countries in 1992, the prospects for Poland, Hungary, and the former Czech and Slovak Federal republic (CSFR) look more promising in 1993.

Progress with economic stabilization and reform has been slower in Russia and the other former Soviet republics, despite a good start in early 1992. In January 1992, most prices were freed throughout the former Soviet Union. In Russia, this was followed during the first half of the year by relatively restrictive macroeconomic policies, extensive trade liberalization, and the unification of exchange markets. This led to a period monetary stability, including falling inflation and a stable currency. In the second half of 1992, however, a political stalemate over the nature of reforms led to serious policy slippages. Under mounting pressures from the opponents of rapid reform, the Russian government eased monetary and fiscal policies to finance money-losing state enterprises and inter-republic trade flows. The resulting explosion in monetary growth accelerated monthly inflation to near hyperinflationary rates, sent the ruble into free-fall, and led to widespread capital flight. While the Russian authorities endorsed another broad-based stabilization program in early 1993, the course of economic reform will depend, in large part, on the resolution of the political deadlock.

III. The Fund's Resources

The resources of the IMF are 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. As

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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.

well, the Compensatory and Contingency Financing Facility (CCFF) was established in 1988 to provide financial support when members pursuing adjustment programs face shortfalls in export earnings or other specified difficulties. In addition, the new facility makes available contingent Fund financing to help maintain the momentum of adjustment programs against external shocks.

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. This facility was recently extended until November 1993.

IV. Operations of the Fund

Fund arrangements with member countries totalled 51 at the end of 1992. As of December 31, 1992, 22 stand-by arrangements and seven extended arrangements were in effect, as well as four structural adjustment (SAF) and 18 ESAF arrangements. The total committed resources under these arrangements amounted to SDR 20.8 billion with an undrawn balance of SDR 9.9 billion. This compares to 22 stand-by, five extended and six SAF and 17 ESAF arrangements in effect at the end of 1991 with a total of SDR 17.7 billion committed and an undrawn balance of SDR 8.4 billion.

As shown in the following table, although total lending decreased from the previous year, Fund credit was extended during 1992 as new drawings

exceeded repayments (repurchases). Member drawings in 1992 were SDR 5.3 billion while repayments declined to SDR 4.2 billion. Fund financial activity was highlighted by an increase in drawings under stand-by arrangements and a decrease in drawings under the Fund's compensatory and contingency financing facility (CCFF) from the previous year when many countries drew on the facility in the wake of oil price increases.

TABLE 1
FLOW OF RESOURCES THROUGH IMF 1991-92
(in billions of SDRs)

	<u>1991</u>	<u>1992</u>
1. Total Purchases	8.3	5.3
Of which:		
Stand-bys	2.6	3.1
Compensatory Financing	3.0	0.6
Extended Facility	1.9	0.9
Structural Adjustment Facility	0.2	0.1
Enhanced Structural Adjustment Facility	0.6	0.5
2. Total Repurchases	4.7	4.2
3. Net Purchases	3.6	1.1

V. Managing Canada's Interest in the IMF

(a) Key Issues in 1992

The key issues at the IMF in 1992 included: (i) the large expansion in membership resulting from the admission of the states of the former Soviet Union; (ii) the approval of Fund financial arrangements with some of the new members such as Russia; and (iii) an increase in IMF quotas. Canadian

participation in the discussion of these and other issues at the IMF is coordinated by the Department of Finance, which has the lead responsibility for the IMF. Other departments and agencies that play a role are the Bank of Canada, External Affairs, and the Canadian International Development Agency (CIDA). In cooperation with these agencies and departments, the International Finance and Development Division of the Department of Finance conducts analysis of policy papers and lending programs with a view to ensuring that IMF activities and operations are consistent with its mandate and directed toward the effective use of its resources. In addition to this report, reporting to Parliament also occurs through appearances by departmental officials before parliamentary committees.

Membership Expansion. With the admission to membership of the states of the Former Soviet Union, Switzerland, Micronesia, the Marshall Islands and San Marino, the Fund's membership grew from 156 to 173 members by the end of 1992. These additions have resulted in a nearly universal membership for the IMF. The significant increase in membership led the Fund's Board of Governors to increase the IMF's Executive Board membership from 22 to 24. Following the regular election of Executive Directors at the fall IMF/World Bank Annual Meetings, Russia and Switzerland became Board members.

Assistance to Russia. Canada and the other G-7 countries recognized the urgency of integrating the former Soviet Union into the international economic and financial system as a means of assisting the stabilization of their economies and facilitating their transition to market-based economic structures. The G-7 led efforts to expedite early membership in international financial institutions (IFIs) such as the IMF, thus making it possible for these countries to secure financial support as well as policy advice and technical assistance from the IFIs.

At the 1992 IMF/World Bank Annual Meetings, Deputy Prime Minister and Minister of Finance Don Mazankowski emphasized that while economic reform of the former centrally planned economies would be difficult, there were "no alternatives to economic stabilization, privatization, the liberalization of markets, the establishment of regional trade based on comparative advantage, and the prudent management of external finances." He therefore urged "the maximum cooperation between governments in the region and the IMF in order to accelerate economic reform." Mr. Mazankowski further noted that the primary responsibility for transforming these economies does not lie with western governments or with the IFIs -- external assistance could be effective only if it reinforced internal efforts.

For its part, the IMF has been playing a significant role in helping the international community assess the external financial requirements of the states of the former Soviet Union. As well, the Fund is participating in the exceptional efforts to provide financial assistance by official creditors, and bilateral and multilateral donors. In August 1992 the Fund approved a first credit tranche arrangement of approximately US\$1 billion in financial support for the Russian Federation. Other Fund arrangements were approved in 1992 for Latvia, Estonia and Lithuania.

Quota Increase. In an effort to ensure that assistance for the former Soviet Union would not involve a diversion of resources away from traditional developing country recipients, the increase in IMF quotas approved in 1990 under the Ninth General Review was brought into effect without delay. The increase was ratified in November 1992, as was an amendment of the Fund's Articles of

Agreement allowing for the suspension of the voting rights of members who failed to cooperate in clearing their overdue obligations to the Fund. The increased resources resulting from the quota increase, which expands the size of the Fund by 50 per cent to SDR 144.8 billion (including new members), puts the Fund in a good position to support balance of payments adjustment programs in the former Soviet Union and developing countries.

The quota increase under the Ninth Review also will enable the IMF to finance its lending operations without borrowing from members. As a result, the IMF has terminated the Enlarged Access Policy, under which it has supplemented its quota resources with borrowed funds. The IMF has adopted new limits on the amount of financing available to member countries. These limits, expressed in terms of the new quotas, will broadly maintain potential access to IMF financing for the membership.

(b) Results of Activities of Interest to Canada

A number of other developments at the Fund were of particular interest to Canada. These included: (i) developments in the debt strategy; (ii) debt of the poorest developing countries; (iii) distributional aspects of Fund programs; (iv) military expenditures; (v) environmental policies; and (vi) Fund arrears.

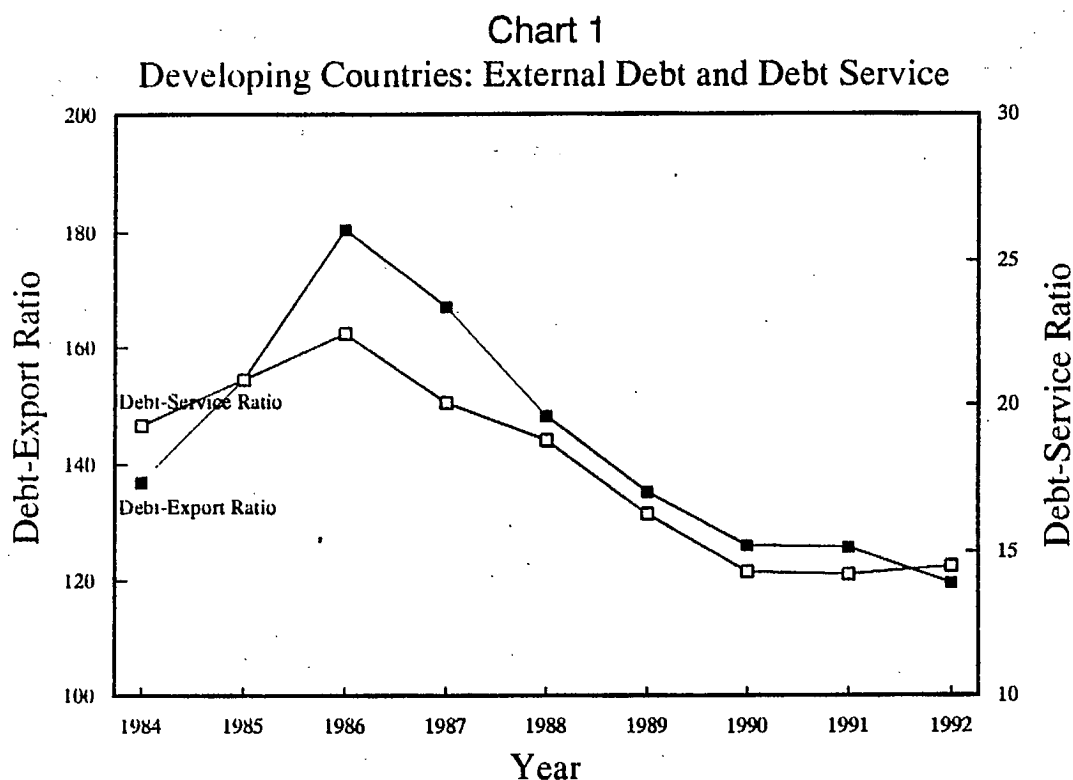
Debt Strategy. Fund lending has played an important part in efforts to strengthen the financial positions of developing countries. Beyond providing temporary financing to bolster international reserves, however, a crucial aspect of Fund assistance is the implementation of corrective policy measures by recipient

countries 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.

One distinct group of indebted developing countries consists of middle-income countries, largely in Latin America. These countries have a high debt burden, 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.

In 1989 the debt strategy was reinforced to strengthen economic growth and expand debt-servicing capacity. The Fund adopted 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. A number of countries, including Costa Rica, the Philippines, Mexico and Venezuela, have adopted programs under the new guidelines.

In its May 1992 World Economic Outlook, the Fund reported that a visible result of the strengthened debt strategy has been the decline in aggregate debt and debt-service ratios (See Chart 1). The reduction in debt burdens has



Source: IMF World Economic Outlook, May 1992

occurred mainly in the highly indebted middle-income countries. A further sign of progress reported in the Fund's 1992 Annual Report is that several countries that had successfully completed commercial debt restructuring have regained some access to international capital markets and achieved satisfactory economic growth.

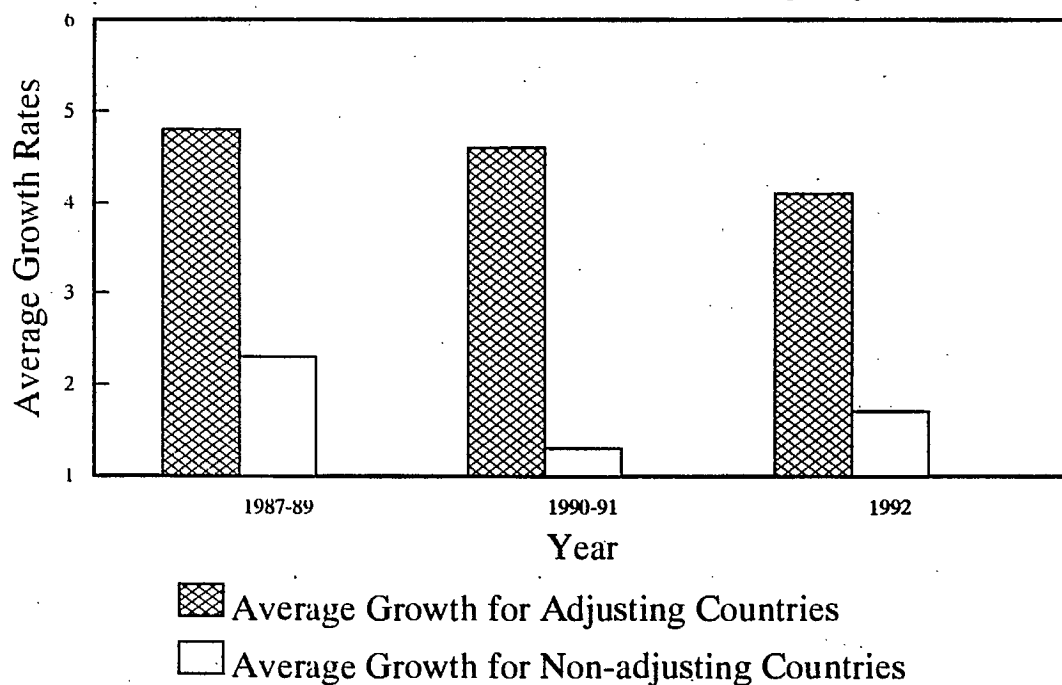
Debt of the Poorest. A second group that the Fund is assisting are the very poorest heavily indebted countries. Their debt is largely owed to official lenders and governments. The Structural Adjustment Facility (SAF) was established in 1986 to provide balance of payments assistance to low-income countries 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 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 has lending resources of about SDR 5 billion. These resources are made available to eligible countries under conditions which generally parallel those of the existing SAF. It was agreed in 1992 to extend the period during which members could seek commitments under the ESAF to November 1993 and add eleven low-income developing countries to the ESAF eligibility list. A condition of such financing is the implementation of economic programs designed to promote structural adjustment and growth in a medium-term framework. The emphasis on structural adjustment implies the necessity of close collaboration between the Fund and the World Bank.

In its October 1992 World Economic Outlook the IMF compared the economic performance of developing countries that have initiated stabilization policies and structural reforms in recent years with those that have not. The report indicates that adjusting countries as a group exhibit generally higher growth rates, lower inflation rates, and lower external debt. For example, Chart 2 illustrates the differing growth performance between adjusting and non-adjusting countries in Africa. Chart 3 illustrates the differing inflation performance. The report also notes that in Africa the reform process was supported by the Fund's structural adjustment facilities (SAF/ESAF) and the World Bank's Special Program of Assistance.

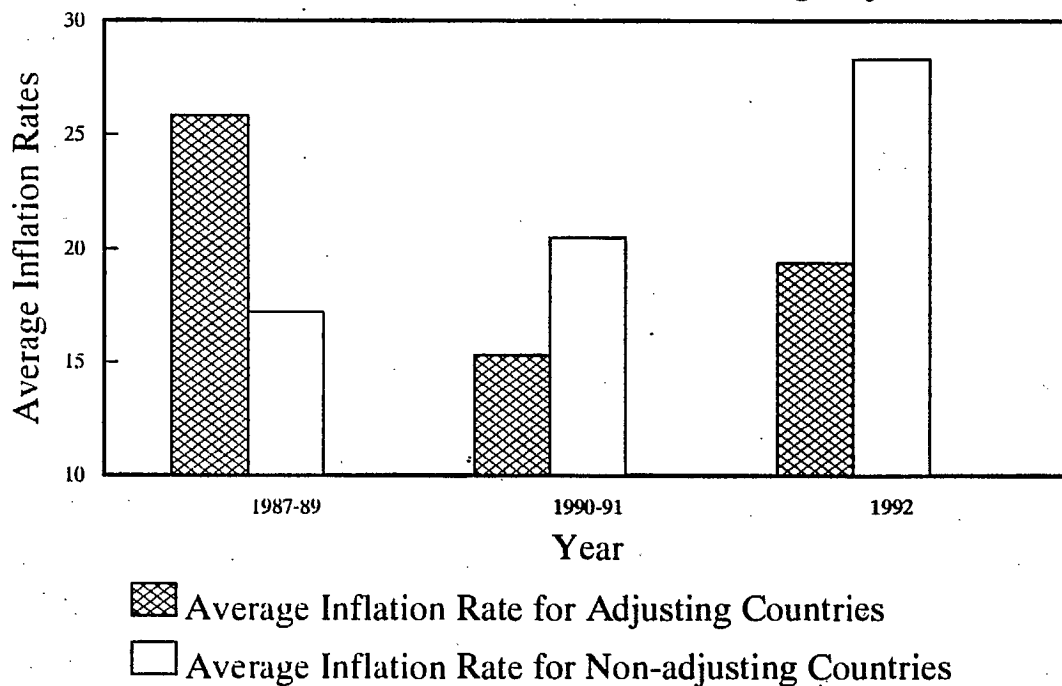
Distributional Aspects of Fund Programs. Although the IMF has no effective authority over the internal economic policies of its members, at the insistence of

Chart 2
Growth in African Countries Undertaking Adjustment



Source: IMF World Economic Outlook, October 1992

Chart 3
Inflation in African Countries Undertaking Adjustment



Source: IMF World Economic Outlook, October 1992

some of its members, including Canada, the Fund has increasingly taken into consideration the distributional effects of IMF adjustment programs. In this respect, the Fund helps members integrate social safety nets into their reform programs. The May 1992 World Economic Outlook reported that many countries have succeeded in their fiscal adjustment efforts without cutting significantly their expenditures on education and health. The report notes that there was no marked difference in these expenditures between countries undertaking adjustment and those that did not.

Military Expenditure. Although the IMF's mandate requires it to respect the social and political policies of recipient countries, the Fund has been placing increased emphasis in its policy advice to members on the implications for growth and external prospects of the composition of their expenditure. The Fund can, and often does, urge members to make the best use of scarce resources by refraining from unproductive spending, including military expenditures. While some members have emphasized that judgements as to the appropriate level of expenditure to provide security are the prerogative of national governments, Canada has strongly supported the Managing Director of the IMF in his efforts to impress upon members that unproductive expenditures detract from sustainable growth and, consequently, economic and social welfare.

Environmental Policies. Canada has taken an active role at the IMF's Executive Board in addressing the need for increased sensitivity by the Fund to environmental issues. In 1991 the Executive Board directed Fund staff to recognize the economic linkages between economic policies and the environment. The Fund has set up an environmental team that has begun to liaise with other organizations (World Bank, OECD, UN) that are undertaking environmental

research and to channel relevant information to the Fund staff. IMF programs often suggest economic measures that discourage the wasteful use of natural resources.

Fund Arrears. Progress continued to be made in 1992 on resolving the problem of overdue financial obligations to the Fund, with the amount of arrears stabilizing at the 1991 level of about SDR 3.6 billion. These 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 corrective 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 that are willing to undertake strong programs of economic reform.

In May 1990, the Interim Committee endorsed the concept of a "rights" approach, under which a country with protracted arrears could earn rights -- based on performance during a Fund-monitored program -- toward future financing once its arrears to the Fund had been cleared. Upon successful completion of a rights accumulation program, clearance of the country's arrears, and approval by the Fund of a successor arrangement, the country would be able to cash in its accumulated rights as the first disbursement under the new successor arrangement. Peru reached agreement in 1991 with the Fund on a rights accumulation program backed by financial assistance from a support group.

Encouraging developments in 1992 included the clearance by Panama of its Fund arrears following the successful completion of a Fund-monitored program. As well, Peru continued to implement its rights accumulation program leading to the strong possibility that it will clear its Fund arrears in 1993.

(c) Canadian Financial Participation in the IMF

Each member of the IMF has a quota, expressed in SDRs, that is equal to its subscription in the IMF. As illustrated in the following table, at the end of 1992 Canada's quota at the IMF was SDR 4,320.3 million, or about 3 per cent of total quotas. This position reflects an increase of SDR 1,379 million resulting from the Ninth Quota Review. Seventy-five per cent of the increase in Canada's quota was paid to the IMF in Canadian dollars. The actual cash payment was a non-budgetary expenditure of SDR 3.4 million, with the remainder of the Canadian dollar portion held in demand notes in the event that the Fund needs to draw upon additional resources. Twenty-five per cent of the quota increase was paid in SDRs from Canada's official reserves. The reduction in the Exchange Fund Account's holdings of SDRs was offset by a matching increase in the Canadian reserve position in the IMF, leaving Canada's total official international reserves unchanged.

The IMF holdings of Canadian dollars as of December 31, 1992 amounted to SDR 3,585.4 million or 106.9 per cent of quota. This compares to holdings of SDR 2,527 million (86 per cent of quota) at the end of 1991. Canada's reserve position in the Fund (the amount that may be drawn on demand for balance of payments purposes) was SDR 734.9 million at year's end, compared to SDR 414 million at the end of 1991. In 1992, Canada received

SDR 7.8 million from the Fund in interest on Canada's net creditor position in the General Resource Account. Canada's cumulative allocation of SDRs remained at SDR 779 million during 1992. At the end of the year Canada's holdings of SDRs amounted to SDR 775.5 million or 97 per cent of its cumulative allocation. Interest earned by Canada on SDR holdings reached SDR 21.6 million.

TABLE 2
Canada's Financial Position in the IMF
as at December 31, 1992
(SDR millions)

Quota	4,320.1
Fund holdings of C\$	3,585.4 (1)
Reserve position in the Fund	734.0 (2)

- (1) One quarter of 1 per cent of the quota is held by the IMF in C\$. The remainder is held in demand notes. Encashment of notes to finance the Fund's operations and transactions results in offsetting changes in the levels of two components of Canada's international reserves, foreign exchange holdings and our reserve position in the Fund.
- (2) Amount Canada is entitled to draw on demand from the IMF for balance of payments purposes.

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 put in place in 1988 arrangements to lend SDR 300 million to

the ESAF Trust and to provide grants of approximately SDR 165 million for an interest subsidy which will apply to ESAF loans. At the end of 1992, loan payments under these arrangements totalled SDR 66.1 million and subsidy contributions equalled SDR 13.7 million. Remaining commitments at the end of 1992 under the ESAF loan were SDR 233.1 million and SDR 151.3 million for the interest subsidy. Canada's commitment under the General Arrangements to Borrow is the equivalent of SDR 892.5 million. As was the case in 1991, this line of credit available from Canada was not used by the Fund in 1992.

(d) Consultations with the IMF

As part of its surveillance responsibilities, the IMF regularly examines each member's economic policies and performance and their interaction with economic developments in other countries. In this context, a team of IMF officials visited Ottawa in December 1992 as part of the annual consultation procedure under Article IV of the Fund's Articles of Agreement.

The Board of Governors held its annual meeting in Washington in September 1992. The Interim Committee, the ministerial committee which advises the Board of Governors and gives general policy guidance to the Executive Board, met twice, in Washington in April and October. The major issues of discussion at these meetings were the economic recovery of industrial countries, the debt situation of developing countries and the severe drought in southern Africa, and the reform efforts of countries in Eastern Europe and the states of the former Soviet Union.

(e) Canadian Representation at the Fund

The Honourable Don Mazankowski represents Canada on the IMF Board of Governors. David A. Dodge, Deputy Minister of Finance, is the Alternate Governor. Douglas E. Smee 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.

There were 61 Canadian nationals on the regular staff of the IMF at the end of March 1992; of these, 40 were in professional positions and 20 in non-professional positions. Canadians accounted for about 3 per cent of the Fund's regular staff in 1992.

THE WORLD BANK GROUP

I. Purpose

The World Bank Group comprises 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 primary function of the IBRD 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 policy and institutional reform. The IBRD and IDA differ essentially in the sources of their funds and the terms of their loans. The IBRD obtains most of its funds by borrowing in private capital markets and must therefore, as a financial institution, maintain a very strong financial position. As a result, the IBRD is able to borrow at favourable rates and subsequently lend to developing countries at rates well below those commercial lenders might offer. The IDA, which lends only to the poorest countries, relies on contributions from donor governments for the bulk of its resources and thus can make loans on highly subsidized terms. Otherwise, the IBRD and IDA have similar policies. The two organizations are served by the same staff.

The World Bank's efforts to raise living standards include a wide array of activities, including investments to improve education, ensure environmental sustainability, expand economic opportunities for women, strengthen population-planning, health, and nutrition services, and develop the private sector.

Through adjustment lending, the World Bank also supports economic restructuring (i.e. import support, financial sector reform, public sector adjustment) on the basis that, in many borrowing countries, this is a precondition for restoring economic growth and reducing poverty.

The IFC supplements the activities of the IBRD and IDA by making and encouraging investments on commercial terms in productive private enterprises in developing member countries. The IFC's share capital is provided by its member countries. Like the IBRD, the IFC raises most of its funds for its lending activities through bond issues in the international financial markets, while its equity investments are financed from its capital base and retained earnings. As increasingly more developing countries adopt market-based policies, demand for IFC's services - loans, equity investments, resource mobilization, and advice - continues to grow. For example, Albania, Bulgaria, Equatorial Guinea, the Lao People's Democratic Republic all joined the Corporation during 1992.

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

The World Bank seeks to acquire a comprehensive picture of the position and prospects of borrowing countries' economies and their development requirements. It does so to identify sectors and projects that should be given

high priority, and to form judgements on questions relevant to a borrowing country's economic growth, social and environmental policies and its eligibility for World Bank financing. The World Bank works closely with the IMF in developing an accurate picture of a recipient country's economic situation, and complements the IMF's short-term balance of payments lending with financing for longer-term structural adjustment programs.

By giving continuous attention to the economic situation and policy considerations 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.

II. Objectives

The World Bank's priority objectives for the 1990s are the achievement of sustainable economic development and the reduction of poverty; actions to protect the environment are seen as being essential to the achievement of both objectives. Due to the encouragement by many member countries, including Canada, the Bank has made significant progress in integrating environmental criteria into its lending programs. It has prepared environmental guidelines for a number of sectors, including tropical rainforests, and it publishes a comprehensive annual report on the environmental aspects of its activities. It also provides assistance to borrowing countries in preparing National

Environmental Action Plans. The agreement on the Ninth Replenishment of IDA (IDA 9), concluded in December 1989, as well as the recent agreement on the Tenth Replenishment of IDA (IDA 10), concluded in December 1992, reflected donor concerns that environmental criteria be firmly integrated into IDA lending programs. Canada has consistently pressed for environmentally sustainable development as an essential aspect of World Bank programming.

The IDA 10 agreement re-emphasized the need for IDA to focus on three main objectives to support sustainable development in the poorest countries: poverty reduction, economic adjustment and growth, and environmental protection and improvement. The agreement identifies specific steps to be implemented in each of these areas. The IDA 10 agreement is also explicit on the need for the World Bank to play a role in issues of good governance. In particular, World Bank programs are to continue to support strengthening the capacity of borrowing governments in areas such as accountable public institutions, transparent economic policies and a predictable and stable legal framework, all of which are important in the development process. Also, the IDA 10 agreement underscores the importance of public expenditures to reflect development priorities, and the need for non-development expenditures, including military expenditures, to be reduced to the maximum extent feasible. Finally, at Canada's request, the IDA 10 agreement states that the higher shares of social sector and poverty-targeted investments achieved during IDA 9 should be increased further during IDA 10.

Ensuring that directly affected communities and groups are able to participate in the design and implementation of programs and projects is given increasing emphasis at the World Bank. Even where projects have a secondary impact on particular localities or population groups, there should be a consultation

process which takes their views into account. This is an essential element of securing commitment and support for projects and enhancing the quality of their implementation. As the World Bank takes further steps to improve implementation of its policies, programs and projects, public participation is increasingly seen as essential.

The World Bank, as the world's largest development institution, regularly organizes aid coordination meetings at which donor countries meet to review the contributions they plan for a particular developing country for the year ahead. In 1992, the World Bank participated in a large number of aid coordination meetings for individual borrowing countries; these included twenty Consultative Groups, three Pre-Consultative Groups, seven Round Tables and thirteen Donor Meetings. Of these, 18 were for recipient countries in Sub-Saharan Africa. Region-wide donor groups active last year included the Caribbean Group for Cooperation in Economic Development and the Donor Group on the Special Program of Assistance for Africa. The Bank participated in 11 aid groups in Asia, including the Indonesia Consultative Group and the Aid Group for Mongolia. 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 UN Development Program (UNDP), the UN Environment Program (UNEP), the UN's specialized agencies, the regional development banks and the Organization for Economic Cooperation and Development. For example, the World Bank and the UN 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 November 1990, the Global Environment Facility (GEF), run jointly by the World Bank, the UNDP and the UNEP, was established as a pilot facility for environmental funding in developing countries in the areas of ozone, climate change, biodiversity and marine environment. Total commitments for the three years of the pilot program are estimated at SDR1.0 billion (Cdn\$1.6 billion). Canada's contribution of Cdn\$38.3 million comprises: (a) \$10 million to the Core Fund of the GEF; (b) \$15 million co-financing by CIDA; and (c) \$13.3 million through our contributions to the Montreal Protocol Fund.

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, known as the Development Committee, met twice in 1992: in April and in October, in Washington.

In 1992, the republics of the former Soviet Union became members of the World Bank. The World Bank is working in all 15 states to help implement structural and sectoral reforms aimed at restoring growth and helping to create a viable private sector. Three loans to Russia and one each for the Baltic States have already been approved by the World Bank Board of Executive Directors. Lending to the republics of the former Soviet Union may reach US\$2.3 billion by the end of June 1993, and could be higher in 1994, if the momentum of reform is maintained.

III. Resources

(a) IBRD Resources

IBRD funds are provided primarily from three sources:

- (i) **Authorized capital.** The Bank's Board of Governors approved a general capital increase of \$76.5 billion in 1988, with \$1.7 billion to be set aside for new members. The paid-in portion of the increase is 3 per cent. A special capital increase of \$9.3 billion was approved in April 1992 to accommodate the membership of the republics of the former Soviet Union. The Bank's authorized capital is now \$184.0 billion.

Of authorized capital of \$184.0 billion, \$152.3 billion had been subscribed (as of June 30, 1992), and \$10.1 billion of this amount had been paid-in. The remaining \$142.2 billion is callable and is used to back capital market borrowings.

- (ii) **Borrowing.** As of June 30, 1992, the World Bank had outstanding borrowings of \$97.1 billion, of which \$5.4 billion were short-term borrowings, compared to outstanding borrowings of \$90.2 billion at June 30, 1991. During fiscal year 1992 (July 1, 1991-June 30, 1992), the IBRD raised \$11.8 billion through medium- and long-term borrowings in eleven currencies and currency units. The IBRD also refinanced the \$5.4 billion of short-term borrowings that had been outstanding at the end of fiscal year 1991.

(iii) **Net Income from Operations.** As of June 30, 1992 undistributed retained earnings amounted to \$13.2 billion. Net income in fiscal year 1992 was \$1,645 million.

(b) IDA Resources

IDA's resources are derived largely from budgetary allocations by its developed country members. Total resources made available or committed by member governments to IDA from the beginning of its operations to the end of June 1992 were \$73.7 billion. Other resources that have been made available to IDA since its inception include transfers of a portion of World Bank net earnings to IDA (\$3.5 billion) and contributions from Switzerland - before Switzerland became a member of IDA (\$51 million).

Negotiations on the Tenth Replenishment of IDA (IDA 10) were completed in December 1992. The replenishment of approximately \$18 billion will provide resources for a three-year period beginning in July 1993. 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 \$400. The share of IDA 10 resources going to sub-Saharan Africa will be maintained at a level of 45-50 per cent provided that recipient countries demonstrate sound economic policy and good governance performance.

(c) IFC Resources

Total resources available to IFC amounted to \$7,502.8 million at June 30, 1992; these were derived from paid-in capital subscribed by member governments (\$1,251.5 million), borrowings from the World Bank (\$990.0 million) and other creditors (\$4,123.5 million), and retained earnings (\$1,137.8 million).

In order to meet the increasing demand for assistance with private sector development, the IFC's Board of Governors approved a \$1 billion capital increase on May 4, 1992, increasing IFC's capital base from \$1.3 billion to \$2.3 billion. Payments for the capital increase are expected to be made over the next five years.

(d) MIGA Resources

The Convention establishing MIGA provides for an initial capitalization of SDR 1 billion (\$1.082 billion) with a paid-in portion of 20 per cent (10 per cent in cash, 10 per cent in demand notes) and a callable portion of 80 per cent. At June 30, 1992, \$844.4 million had been subscribed. Paid-in capital amounted to \$168.4 million and retained earnings amounted to \$10.7 million.

IV. Loan Activities

(a) IBRD

As of June 30, 1992, the IBRD had approved loans cumulatively totalling \$218.2 billion (net of cancellations, and excluding loans made to the IFC) to its borrowing members. The World Bank's loans are long term (15 to 20 year maturities) and carry non-concessional rates of interest. Since July 1, 1982 the lending rate has been refixed every six months as of 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. For the period January 1993-June 1993, the IBRD lending rate is 7.43 per cent.

(b) IDA

As at June 30, 1992, IDA had approved credits cumulatively totalling \$71.1 billion equivalent (net of cancellations) to its borrowing member countries. As noted above, IDA's development credits are interest-free (although there is a service charge of 0.75 per cent on disbursed and outstanding balances) with 35 to 40-year term and 10 years' grace. Between 1982 and 1988, a commitment fee of 0.5 per cent was charged on undisbursed balances for IDA credits. In 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 per cent. This fee is subject to annual review by the Executive Directors. For the period July 1, 1992 - June 30, 1993, the commitment fee is zero.

In 1988, the Executive Directors approved the use of future repayments in advance of their actual receipt. This increased the Association's commitment authority. Annual commitments of SDR525 million for the period fiscal 1989-93 in the form of advance commitments were approved. In addition, annual allocations may be made out of investment earnings on donor contributions and reflows that have not been 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.

(c) IFC

At June 30, 1992, IFC's total cumulative commitments since inception of operations was \$15,822.9 million, of which \$10,840.3 million was committed from IFC's own account, and \$4,982.6 million from syndications (IFC mobilizes funds from commercial banks and other financial institutions through loan participations, which are sold without recourse to IFC, but are administered and serviced on behalf of the participants).

(d) MIGA

MIGA issued its first four guarantees during fiscal year 1990, covering a maximum contingent liability of \$132.3 million. During fiscal year 1991, MIGA issued 11 guarantee contracts supporting 10 projects totalling \$922 million in direct investment. During fiscal year 1992, MIGA issued 21 guarantees, which will facilitate aggregate direct investments totalling about

\$1 billion, covering a maximum liability of \$313 million. At June 30, 1992, the maximum amount of contingent liability of MIGA under guarantees issued and outstanding totalled \$421.5 million.

V. Review of Loan Activities in 1992

IBRD loans, IDA credits, IFC investments and MIGA guarantees approved in fiscal year 1992 and in the three preceding fiscal years were as follows:

	<u>1989</u>	<u>1990</u>	<u>1991</u>	<u>1992</u>
	(in millions of U.S. dollars)			
IBRD*	16,433	15,180	16,392	15,156
IDA	4,934	5,522	6,293	6,550
IFC	1,709	2,201	2,846	3,227
MIGA	0	132	59	313
Total IBRD+IDA	21,367	20,702	22,685	21,706

Table I annexed to this Report lists World Bank and IDA loans and credits during fiscal year 1992 according to geographical area and purpose, while Table II is a historical summary of loans and credits by year, geographical area and purpose. IFC commitments are listed in Table III.

* Excludes loans to IFC of \$179 million in 1989, \$177 million in 1990, \$200 million in 1991, and \$200 million in 1992.

VI. Managing Canada's Interest In The World Bank Group

(a) Introduction

Canadian participation in the World Bank is designed to serve a number of interests and objectives. The World Bank exerts a major influence on the global development agenda and has exerted considerable leadership in introducing innovations in the broad area of development assistance. It is the world's largest, most important and influential organization active in the development field. Participation in the World Bank thus gives Canada a voice in important developmental decisions and provides Canada with information not obtainable through our bilateral program.

The World Bank designs and implements policy frameworks in recipient countries. It promotes policy reforms even at the project level. By promoting economic development, the World Bank also opens commercial markets for Canada while World Bank projects themselves require procurement from foreign and local sources, for which Canadian firms can apply.

The Governor for Canada at the World Bank is the Honourable Don Mazankowski, Deputy Prime Minister and Minister of Finance. Marcel Massé, former President of the Canadian International Development Agency, was the Alternate Governor in 1992, and will be succeeded by the new President of CIDA, Ms. Jocelyne Bourgon. Frank Potter is Canada's Executive Director on the Bank Group's Executive Boards and 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.

The Department of Finance has the lead responsibility for managing Canada's participation in the World Bank Group and maintains regular communication with Canada's Executive Director. The department consults extensively with the Canadian International Development Agency (CIDA) and External Affairs and International Trade Canada (EAITC). Consultations with Environment Canada also occur as environmental issues arise.

(b) Key Issues In 1992

Major issues for Canada at the World Bank in 1992 included the negotiation of IDA 10, the creation of a Task Force to review the World Bank's portfolio management, and membership expansion to include the republics of the former Soviet Union.

Negotiations on the replenishment of IDA funds provide a good opportunity for donors to raise policy issues with Bank management. During the course of the IDA 10 negotiations, Canada was particularly active in ensuring that the final agreement included a strong commitment to increase IDA's direct poverty reduction activities. Canada's efforts in this area were successful and the final report included language to the effect that the higher shares of social sector and poverty-targeted investments achieved during IDA 9 will be steadily increased during IDA 10.

Canada also insisted that the Bank's Country Assistance Strategies (CAS) should be more complete. These strategies set the context for Bank investment in a particular country by defining the key economic issues and

challenges and the areas most in need of World Bank support. Canada views these documents as important to the planning process and believes they should be as comprehensive as possible. Specifically, Canada pushed for the inclusion of details on such issues as country performance with respect to good governance (including relative levels of military spending), project implementation, commitment to poverty reduction, and environmental protection and improvement. Canada also emphasized the need for IDA to reinforce its focus on women in development and population planning, on the grounds that investment in these areas is essential for effective poverty reduction programs.

Most donors, including Canada, agreed that the World Bank should give greater priority to the implementation of already approved programs and projects. Concern stemmed from certain problems identified with the quality of the loan portfolio, and the emphasis often placed on new lending, as opposed to improved performance of existing loans. This issue was discussed extensively during 1992. Indeed, in February 1992, the President of the Bank, Lewis Preston, appointed a Portfolio Management Task Force (led by former Bank Vice President Willi Wapenhans) to examine problems affecting the quality of the World Bank's portfolio of loans and credits. Canada strongly supported the creation of the Task Force, since it reflects an effort by the Bank to ensure that resources are being used as efficiently as possible. The Task Force Report was released in October 1992.

The Task Force Report recognizes that many problems associated with World Bank projects are external to the Bank's activities. However, there are some aspects of Bank practice that either may contribute to portfolio management problems or are insufficiently effective in resolving them. The

Report identifies as an underlying cause a preoccupation with new lending. The emphasis on loan approval is often not matched by emphasis on implementation planning and identification and assessment of major risks to project performance.

The Report is also critical of the fact that while problem projects receive special attention, recourse to project restructuring or the exercise of remedies is infrequent. Finally, the Report also criticizes the project-by-project approach of portfolio performance management, as opposed to country-wide implementation reviews.

Bank management, staff and the Executive Board are now working to address the issues raised by the Wapenhans Task Force Report.

Another major development in 1992 was the extension of membership in the World Bank Group to the Republics of the former Soviet Union, including Russia. The Bank is working on programs in all 15 states of the former Soviet Union. In 1992, three loans to Russia were approved by the Bank's Executive Board (totalling \$760 million), as well as one loan each for the Baltic States. Disbursements to these new member countries during 1992 were very limited (\$3 million) since it took some time for the new members to become familiar with the processes involved in signing loan agreements. The World Bank Group is in a position to play a key role in assisting these countries in the transition of their economies. World Bank commitments in the states of the former Soviet Union, and in Russia in particular, could increase substantially in the next few years depending on their continuing commitment to reform.

(c) Funds Subscribed or Contributed by Canada

IBRD

Under the \$76.5 billion 1988 general capital increase (GCI III), Canada was allocated 19,655 new shares valued at \$2.37 billion. The paid-in portion of these shares is \$71.1 million. These shares are being subscribed over a five-year period ending at the end of 1993. At June 30, 1992, Canada had subscribed to 15,181 shares of the GCI III.

As of June 30, 1992, Canada's cumulative subscriptions to the IBRD's capital stock was \$4,864 million (40,321 shares), of which \$318.7 million had been paid-in.

IDA

The IDA 9 agreement reached in December 1989 resulted in a \$15.2 billion replenishment which will finance IDA's lending program through to June 30, 1993. Canada's share was 4.75 per cent of the replenishment, or Cdn\$828.6 million (the exchange rate for national currencies was set during the negotiations). Canada made its first payment during 1990. Payments by notes will be completed in 1993. Notes are encashed over a ten-year period.

The IDA 10 agreement reached in December 1992 resulted in a SDR 13 billion replenishment (approximately \$18 billion equivalent), which will finance IDA's lending program to June 30, 1996. Canada's share was

4.0 per cent of the replenishment. Canada will be providing Cdn\$829 million, over an eight-year period.

Canada had to the end of fiscal year 1992 contributed the equivalent of \$3,491.3 million to the IDA.

IFC

A \$1 billion capital increase (the 1991 GCI) was formally approved in May 1992. Under the 1991 GCI, Canada can subscribe to as many as 35,366 new shares of IFC, valued at \$35.4 million. Payments for these shares are expected to be made over the next five years.

As of June 30, 1992, Canada's total subscription to the IFC since 1956 amounted to \$46.0 million, all of which was paid-in.

MIGA

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

(d) World Bank Borrowings in Canada

From 1952 through 1971, the Bank borrowed Cdn\$150 million in our domestic public capital markets 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 used 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. From 1952 to December 31, 1992, the Bank had borrowed an aggregate principal amount of Cdn\$2,780 million of which Cdn\$1,454 million (approximately \$1,150 million), was outstanding.

The Bank of Canada, as fiscal agent of the Government of Canada, has purchased an aggregate principal amount of \$465.6 million of the World Bank's traditional two-year US dollar-denominated offerings to central banks. There were no purchases made in 1992. At December 31, 1992, \$25.0 million of these bonds were held by the Bank of Canada.

(e) Canadian Procurement and Personnel

Projects financed by the World Bank require procurement from foreign and local sources to achieve project goals. Participation in the World Bank Group therefore gives Canada commercial benefits through the procurement of goods and services in Canada by the World Bank and IDA. Total identifiable expenditures in Canada by World Bank and IDA borrowers to June 30, 1992 were about \$2.47 billion.

For Fiscal Year 1992, IBRD and IDA disbursements for Canadian goods and services totalled \$169 million, about equal to the annual average of \$168 million recorded over the previous ten years. These disbursements were distributed in four broad categories: consultant services (\$45 million), civil works

(\$3 million), equipment (\$66 million) and all other goods (\$55 million). Details of the expenditures, made by year, are provided in Table IV.

There were 198 Canadian nationals on the regular staff of the World Bank Group at the end of 1992; of these, 151 were in professional positions and 47 in non-professional positions. There were also 24 Canadians working at the World Bank on fixed-term contracts or as consultants. Canadians accounted for about 3 per cent of the Group's regular professional staff in 1992.

(f) CIDA Cooperation with the World Bank

As noted in Section II, the World Bank organizes Aid Consortia and Consultative Groups to review the economic situation and policies of, and coordinate development assistance to, a number of developing countries. Canada is a participant in World Bank-led efforts in Bangladesh, Bolivia, Cameroon, the Caribbean, Ghana, Honduras, India, Kenya, Malawi, Mali, Mozambique, Nepal, Nicaragua, Nigeria, Pakistan, Tanzania, Uganda, Zambia and Zimbabwe.

In 1992, Canada co-financed with the World Bank projects in Pakistan, Burkina Faso, and in the West Africa region. Total project costs will be \$748 million, of which Canada will contribute \$44.5 million.

During 1992, Canada funded five technical co-operation agreements with the World Bank for hiring Canadian and developing country consultants for short-term assignments. These funds were aimed at improving World Bank loan design and supporting Canadian participation in World Bank operations. Two of these agreements were with the Cofinancing Group at the Bank and provided

assistance in project preparation and sector work. One was concerned with environmental assessments while the other with providing more general sector work. The remaining agreements were with the Operational Evaluation Department, to provide Canadian expertise to Bank project evaluation; with the Economic Development Institute, to finance training programmes and seminars; and with the International Finance Corporation.

During 1992, Canada also continued to support the IBRD/AFDB/UNDP "Social Dimensions of Adjustment" program, which was designed to measure the effects of structural adjustment on the population at large within countries undertaking structural adjustment, and to minimize the adverse consequences for the most vulnerable groups.

In addition, Canada continued to support the IBRD-led "Special Program of Assistance" for low-income, debt distressed countries in Sub-Saharan Africa. This program provides growth-oriented import financing and other assistance for these countries, particularly those implementing strong structural adjustment programs. It establishes a framework for assistance on a country-by-country basis through debt relief, additional concessional assistance from IDA, increased financing of adjustment operations by bilateral donors and resources from the IMF's Enhanced Structural Adjustment Facility.

CONCLUSION

A primary objective of the Bretton Woods institutions is to promote the economic welfare of member countries both through the provision of financial assistance in support of economic policy reforms as well as the long-term development of their economies. The achievement of sustainable non-inflationary economic growth and increased living standards of all groups within member countries often can only be achieved over time. Progress is sometimes difficult to record in readily measurable terms over the short run. Nevertheless, the IMF and World Bank have continued to contribute over the past year to fulfilling these objectives.

As indicated earlier in this report, a reduction in the external debt burdens of a number of member countries has occurred as a result of the effective implementation of the international debt strategy; both the IMF and World Bank have been key participants in the efforts to alleviate the difficult debt situations of the countries involved. The economic performance of developing countries that have initiated stabilization policies and structural reforms in recent years has been better than countries that have not. The Fund and World Bank have supported these reform efforts through their lending facilities.

These institutions are also facilitating economic reform in the countries of Eastern Europe. In addition, the Fund and Bank have helped set the stage for the transition of the economies of the states of the former Soviet Union to a more market-oriented basis. The importance of this assistance, and the role Canada plays as a member of the Bretton Woods institutions, should not be

underestimated in terms of facilitating an effective transition towards market economies.

The Fund and the World Bank activities over the past year have formed an important complement to Canada's bilateral assistance program. Multilateral and bilateral assistance alike are designed to support the fundamental economic development of countries seeking better living standards for their citizens. While there are aspects of sustainable development which are best served by bilateral programs, other objectives can only be achieved through a large multilateral organization such as the World Bank.

Canada's support for these institutions continues to be an important factor in their effectiveness in promoting sustainable economic development. Canada's efforts to ensure that poverty alleviation and sustainable development remain at the forefront of the World Bank's agenda will continue. Similarly, Canada's involvement in the IMF, and its efforts to promote international economic cooperation and appropriate policies that enhance global economic growth, will continue to form an important element of Canada's international economic strategy.

TABLE I

World Banks Loans and IDA Credits

Fiscal Year 1992 (July 1, 1991-June 30, 1992)

(Millions of U.S. dollars)

	<u>WORLD BANK</u>		<u>IDA</u>		<u>TOTAL</u>	
	<u>No.</u>	<u>Amount</u>	<u>No.</u>	<u>Amount</u>	<u>No.</u>	<u>Amount</u>
<u>BY AREA</u>						
Africa	10	738.4	67	3,235.2	77	3,973.6
East Asia	33	4,386.9	13	1,069.6	46	5,456.5
South Asia	6	1,348.0	17	1,640.8	23	2,988.8
Europe and Central Asia	13	2,102.2	1	41.1	14	2,143.3
Latin America & the Caribbean	37	5,256.5	8	405.0	45	5,661.5
Middle East & North Africa	13	1,324.0	4	158.0	17	1,482.0
TOTAL	112	15,156.0	110	6,549.7	222	21,705.7
<u>BY PURPOSE</u>						
Agriculture and Rural Development		2,525.7		1,368.4		3,894.1
Development Finance Companies		802.0		223.3		1,025.3
Education		1,299.6		584.1		1,883.7
Industry		382.7		406.0		788.7
Non-project		1,970.0		1,460.1		3,430.1
Oil, Gas & Coal		864.0		115.6		979.6
Population, Health & Nutrition		307.0		654.7		961.7
Power		2,828.9		228.0		3,056.9
Public Sector Management		525.0		76.7		601.7
Small-Scale Enterprises		60.0		0		60.0
Technical Assistance		69.4		127.0		196.4
Telecommunications		375.0		55.0		430.0
Transportation		1,618.7		490.8		2,109.5
Urban Development		994.0		382.6		1,376.6
Water Supply and Sewerage		534.0		377.4		911.4
TOTAL		15,156.0		6,549.7		21,705.7

TABLE II
World Bank Loans and IDA Credits to Developing Countries
(Millions of U.S. dollars)

	<u>WORLD BANK</u>		<u>IDA</u>		<u>TOTAL</u>	
	<u>No.</u>	<u>Amount</u>	<u>No.</u>	<u>Amount</u>	<u>No.</u>	<u>Amount</u>
<u>BY FISCAL YEAR*</u>						
Cumulative to 1968	549	11,418.1	116	1,831.8	665	13,249.9
Total 1969-1973	374	8,917.8	273	3,931.6	647	12,849.4
Total 1974-1978	666	24,372.3	376	7,947.4	1,042	32,319.7
Total 1979-1983	711	44,908.0	518	16,368.1	1,229	61,276.1
1983-1984	129	11,947.2	106	3,575.0	235	15,522.2
1984-1985	131	11,356.3	105	3,028.1	236	14,384.4
1985-1986	131	13,178.8	97	3,139.9	228	16,318.7
1986-1987	127	14,188.2	108	3,485.8	235	17,674.0
1987-1988	118	14,762.0	99	4,458.7	217	19,220.7
1988-1989	119	16,433.2	106	4,933.6	225	21,366.8
1989-1990	121	15,179.7	101	5,522.0	222	20,701.7
1990-1991	126	16,392.2	103	6,293.3	229	22,685.5
1991-1992	112	15,156.0	110	6,549.7	222	21,705.7
TOTAL	3,414	218,209.9	2,218	71,065.0	5,632	289,274.9
<u>BY PURPOSE</u>						
(Cumulative to June 30, 1992)						
Agriculture and						
Rural Development		40,550.7		23,846.1		64,396.8
Development Finance						
Companies		21,423.4		2,493.9		23,917.3
Education		9,469.8		5,839.5		15,309.3
Industry		15,967.4		2,480.9		18,448.3
Non-project		19,044.4		8,340.5		27,384.9
Oil, Gas & Coal		9,934.0		1,083.5		11,017.5
Population, Health &						
Nutrition		2,656.2		3,246.8		5,903.0
Power		37,290.6		5,576.7		42,867.3
Public Sector Management		2,141.0		384.4		2,525.4
Small-Scale						
Enterprises		4,586.8		626.5		5,213.3
Technical Assistance		652.8		1,113.6		1,766.4
Telecommunications		3,833.5		1,419.1		5,252.6
Transportation		31,020.1		8,376.9		39,397.0
Urban Development		9,921.5		3,078.1		12,999.6
Water Supply and						
Sewerage		9,717.7		3,158.5		12,876.2
TOTAL		218,209.9		71,065.0		289,274.9

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

TABLE III

Summary of IFC Operations as of June 30, 1992

	<u>Total Commitments</u> (millions of U.S. dollars)	<u>Disbursements</u>
<u>BY FISCAL YEAR</u>		
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
1989-1990	1,364.2	1,126.0
1990-1991	2,105.6	1,676.8
1991-1992	2,278.9	1,824.1*
Cumulative to June 30, 1992	<u>15,822.895</u>	<u>11,748.7</u>

* US\$1,114.1 million disbursed for IFC's accounts, US\$710 million for participants.

TABLE IV

Disbursement by the World Bank and IDA Borrowers
for Goods and Services in Canada

To June 30, 1992

(in millions of U.S. dollars)

	<u>WORLD BANK</u>	<u>IDA</u>	<u>Total</u>
<u>BY CALENDAR YEAR</u>			
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)	92.8	23.4	116.2
1988 FY 1988 (to June 30, 1988)	182.1	47.4	229.5
FY 1989	197.0	45.0	242.0
FY 1990	164.0	41.0	205.0
FY 1991	139.0	34.0	173.0
FY 1992	131.0	38.0	169.0
TOTAL (June 1992 exchange rate)	1,937.0	536.0	2,473.0
Per Cent of Total Disbursements	2.2	1.9	2.2
Per Cent of FY 1992 Disbursements	1.9	1.6	1.9