



Department of Finance
Canada

Ministère des Finances
Canada

**REPORT ON OPERATIONS
UNDER
THE BRETTON WOODS AGREEMENTS ACT
AND
INTERNATIONAL DEVELOPMENT
ASSOCIATION ACT
1985**



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INTRODUCTORY NOTE

This report reviews the operations during 1985 of the Bretton Woods Institutions: the International Monetary Fund (IMF) and the World Bank Group, which consists of the International Bank for Reconstruction and Development (IBRD), the International Development Association (IDA), and the International Finance Corporation (IFC).

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

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

Figures in the section on the Fund are expressed in terms of Special Drawing Rights (SDRs), the unit of account for all IMF transactions. The SDR is defined in terms of a weighted 'basket' of 5 major currencies (the U.S. dollar, the German mark, the Japanese yen, the pound sterling, and the French franc) and its value on any given day reflects current exchange rates for those currencies. In 1985, the value of the SDR varied between U.S.\$.95 and \$1.10.

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

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

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

INTERNATIONAL MONETARY FUND

The International Monetary Fund promotes the smooth functioning of the international monetary system so as to encourage international trade and capital movements and, ultimately, high rates of sustainable economic growth, high levels of employment, and the

development of the productive resources of member countries. In line with these general objectives, the Fund seeks to promote stability and order in exchange rates, to foster a multilateral system of settlements for current transactions between members, and to eliminate exchange restrictions that hinder world trade. Accordingly, the IMF provides short- and medium-term financial assistance to members faced with balance of payments difficulties, regardless of their degree of economic development, in order to enable them to correct temporary imbalances with a minimum of disruption to the international monetary system. It also provides, upon request, economic and technical assistance to member countries. During 1985 the Republic of Tonga joined the IMF bringing the total membership to 149 countries.

Economic Environment

During 1985 the pace of the global recovery slowed markedly to 2.8 per cent from the 4.4 per cent in 1984. Among the industrial countries, growth in real GNP averaged 2.7 per cent, down from 4.7 per cent in 1984. The moderation in growth was largely due to a sharp, but expected, deceleration of economic activity in the United States to 2 1/4 per cent in 1985 from the very high levels in 1984. Among the other major countries only Canada and Japan, with growth rates of 4.5 and 4.2 per cent respectively, were able to achieve strong increases in GNP. The European economies continued to experience only modest growth in the 2 to 2.5 per cent range. Developing countries as a group saw their growth slow from 4.1 per cent in 1984 to 3.1 per cent in 1985.

Inflation in the industrial countries (as measured by GNP deflators) continued to decline in 1985, averaging 3.8 per cent, versus 4.3 per cent in 1984. The developing countries though experienced rising inflation which now stands at nearly 40 per cent.

Unemployment remained a serious problem everywhere but particularly in Europe where there are now 19 million unemployed and employment growth has been negligible. Canada and the USA though experienced very strong employment increases (2.7 and 2.1 per cent respectively) which allowed both significant reductions in unemployment rates and strong growth in labour force participation.

On the external side, the current account balance in the United States (including official transfers) has deteriorated significantly in recent years, shifting from a surplus of U.S.\$6 billion in 1981 to a deficit of \$114 billion in 1985. This shift has been associated with a large increase in capital inflows into the United States and until recently an appreciation of the exchange rate. The increased U.S. current account deficit was also associated with an opposite trend in the current account positions of most other countries. The industrial countries recorded a surplus of around \$65 billion in 1985 while developing countries had a deficit of \$34.6 billion.

The slowing of growth in industrialized countries and the persistence of high interest rates had an adverse impact on the economic position of the developing countries, however, the economic situation of individual countries varied considerably, with the debtor and poorest countries continuing to face the most difficult conditions.

Initially, external adjustment efforts in non-oil LDCs relied on a substantial compression of imports. Spurred by the economic recovery in the industrial countries, however, non-oil LDC exports increased by almost 12 per cent in value in 1984, permitting their current account deficit to fall to U.S.\$26.5 billion from \$44.1 billion the previous year, despite renewed import growth. This trend was reversed in 1985. With exports declining the current account deficit increased to U.S. \$27.5 billion, the first increase since 1981.

The major development on foreign exchange markets in 1985 has been the decline of the U.S. dollar against all major currencies apart from the Canadian dollar. On the basis of year-end values, the dollar depreciated by 20.2 per cent against the currencies of the European Monetary System (EMS), including decreases of 22.4 per cent against the French franc and 22.7 per cent against the German mark. The U.S. dollar fell 20.0 per cent in relation to the pound sterling, 20.6 per cent against the yen, and rose 5.8 per cent against the Canadian dollar. Most developing countries continued to peg their currencies to that of a major trading partner or to a basket of currencies.

The Fund's Resources

The quotas of members in the IMF are of central importance both from a political and economic standpoint. Politically, a member's voting rights are determined by the size of its quota. Quotas are also an important determinant of membership on the Executive Board, which manages the day-to-day operations of the Fund, and on the Ministerial Interim Committee, whose composition is patterned on that of the Executive Board. From an economic standpoint, the subscriptions of members are equal to their quotas. In addition, a member's drawing capacity on IMF financial resources for balance of payments support is based on the size of its quota. Members' quotas are also used as the basis for determining allocations of new SDRs.

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

In addition, the Fund temporarily operated the Supplementary Financing Facility (SFF) (used in conjunction with drawings on the second and higher credit tranches and the EFF) to help members to finance payments deficits that were exceptionally large in relation to

their quotas. The facility, which used resources borrowed from monetary authorities, started operating in early 1973. 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 1985 the Fund's activities were directed towards assisting debtor countries in consolidating the gains made in strengthening their balance of payments positions and in ensuring that the IMF will continue to be able to assist them in resolving their financial difficulties. The easing of the financial situation of debtor countries experienced in 1984, was not as marked last year as world growth and trade slowed due to high interest rates. Fund lending has played an important part in directly strengthening 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.

In view of the uncertainties that remain in the world economy and the serious payments difficulties that many member countries face, the review of the Fund's Enlarged Access Policy (EAP), undertaken last

year, led to a small adjustment in drawing limits. When the EAP was implemented to provide increased assistance to members it was recognized that it would be a temporary facility, however, it was felt that there was a need to continue the enlarged access policy with only modest adjustment for 1986. Annual access under the EAP was therefore reduced to 90 or 110 percent of quota (from 95 or 115 per cent of quota), with three-year limits of 270 or 330 per cent of quota (down from 280 or 345 per cent of quota), and cumulative limits of 400 or 440 per cent of quota (compared to the previous limit of 408 to 450 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.

Over the period 1985-1991, the repayments on loans made by the Trust Fund will amount to about SDR 2.7 billion. In view of the economic difficulties of low-income countries it was agreed that the total amount of these resources, possibly supplemented by funds from other sources, should be used to provide balance of payments assistance on concessional terms to countries eligible for IDA resources. A condition of such financing would be the implementation of economic programs designed to promote structural adjustment and growth in a medium-term framework. The emphasis on structural adjustment implies the necessity of close collaboration between the Fund and the World Bank.

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

industrial countries in the IMF plus Switzerland) have provided a revolving line of credit under the General Arrangements to Borrow (GAB). Initially, the GAB was established to provide the IMF with temporary financing to help it meet exceptionally large drawings by any one of the contributing countries. In 1983 the GAB was enlarged and its mandate broadened to cover drawings by any Fund member under particular circumstances. The size of the line of credit available under the GAB is now SDR 17 billion. During 1985 the Fund did not utilize any of the resources available under the GAB or the associated SDR 1.5 billion Saudi Arabian line of credit.

Since the mid-seventies, the IMF has engaged in borrowing operations to support the SFF and, more recently, the EAP. As of December 1985, outstanding Fund borrowings to finance SFF lending to members amounted to the equivalent of SDR 5.4 billion. In 1984 Saudi Arabia provided the IMF with an additional line of credit for SDR 3 billion, available to May 1987, in support of the IMF's lending activities through the EAP. This line of credit brings to SDR 11 billion the total amount provided or made available to the Fund by Saudi Arabia over the past few years in direct support of the EAP. The assistance provided by Saudi Arabia in 1984 which was matched by a number of industrialized countries including Canada through the Bank for International Settlements (BIS), as well as separately by Japan and Belgium, was extended to the end of 1985. Canada guaranteed SDR 180 million of the BIS loans; no cash payment by Canada was necessary. As of December 31, 1985 Canada's exposure was the full SDR 180 million.

Operations of the Fund

Total financial assets of the Fund as of December 31, 1985, were around SDR 106 billion. Holdings of members' currencies totalled SDR 98 billion (a large part of these assets, however, are not available for lending since they are the currencies of members with weak external positions or low international reserves). SDRs held by the Fund amounted to almost SDR 5 billion and its gold holdings amounted to SDR 3.6 billion valued at SDR 35 per fine ounce.

As displayed in the following table, the flow to member countries of Fund-related resources in 1985 was SDR 4.3 billion (SDR 0.6 billion net of repurchases). This compares to SDR 8.2 billion in 1984 (SDR 5.9 billion net of repurchases). The sharp decline in purchases last year reflected the need in 1984 for substantial amounts of Fund assistance by countries facing serious balance of payments difficulties and the relatively greater reliance, in 1985, on other sources of financing. The flow of funds to member countries last year included drawings on the Fund's General Resources Account (GRA) and the SFF Subsidy Account. Of this total, all but SDR 29 million was drawn by developing countries.

Purchases under the GRA (mostly in drawings under conditional Fund facilities) amounted to SDR 2.6 billion compared to SDR 8.1 billion in 1984. Net of repurchases the flow of resources through this account was SDR 0.6 billion (SDR 5.8 billion in 1984). Purchases under the reserve tranche, which a member with balance of payments difficulties can draw on automatically, decreased by SDR 628 million, reflecting the fact that a large proportion of resources available under this tranche was drawn by deficit countries over the previous two years. Due to weak export performance in LDCs during 1985 the demand for assistance under the CFF increased marginally to SDR 929 million (up from SDR 816 million in 1984). No drawings were made on the buffer stock facility due to the decline in contributions by countries to international buffer stocks.

TABLE 1

FLOW OF RESOURCES THROUGH IMF 1984-85
(in millions of SDRs)

	<u>1984</u>	<u>1985</u>
Total Purchases	8,105	4,199
Reserve Tranches	813	185
Credit Tranches	3,149	2,641
(through SFF)	-	-
(through EAP)	(1,798)	(1,239)
Buffer Stock	2	-
Compensatory Financing	816	929
Extended Facility	3,324	444
(through SFF)	(200)	-
(through EAP)	(1,464)	(361)
Total Repurchases	2,295	3,641
Net Purchases	5,810	558
SDR Allocations	-	-
SFF Subsidy Account	85	87
Total Flow of Resources	8,190	4,286
Total Flow Net of Repurchases	5,895	645

New commitments under stand-by and extended arrangements in 1985 amounted to SDR 3.3 billion, down from new commitments of SDR 4.5 billion entered into during 1984. As of December 31, 1985, 29 stand-by arrangements and 3 extended arrangements (all with LDCs) were in effect. The total amount agreed to under these arrangements amounted to SDR 9.9 billion with an undrawn balance of SDR 4.7 billion. This compares to 29 stand-by and 4 extended arrangements in effect at the end of 1984 with a total of SDR 14.8 billion committed and an undrawn balance of SDR 6.6 billion.

The total amount of SDRs in circulation in 1985 was SDR 21.4 billion. Total transfers of SDRs between participants in the SDR Department, prescribed institutional holders of SDRs outside the IMF, and the Fund's General Resources Account amounted to

SDR 15.9 billion during 1985 compared to SDR 15.7 billion in 1984. Transactions with designation (in which countries designated by the IMF provide their currencies to countries with balance of payments problems in exchange for SDRs) amounted to SDR 1.9 billion compared to SDR 2.3 billion in 1984. The bulk of these transactions involved the simultaneous purchase of SDRs from the Fund as part of IMF balance of payments loans. Transactions by agreement between participants amounted to SDR 2.6 billion compared to SDR 2.9 billion during the previous year. Large payments during the year by participants to prescribed institutional holders outside of the IMF (of which there are 14) resulted in an increase of SDR 147.3 million to SDR 170.6 million in 1985. Transfers of SDRs from the GRA (to members drawing on the Fund and the servicing by the IMF) equalled SDR 6.4 billion last year. Transfers of SDRs to the GRA amounted to SDR 4.5 billion. Consequently, the GRA's holdings of SDRs fell last year to SDR 3.0 billion from SDR 5.0 billion at the end of 1984.

IMF Relations with Canada

Canada's quota at the IMF is SDR 2,941 million. IMF holdings of Canadian dollars as of December 31, 1985 amounted to SDR 2,455 million or 84 per cent of quota. This compares to holdings of SDR 2,413 million (82 per cent of quota) at the end of 1984. Canada's reserve position in the Fund (the amount that can be drawn on demand for balance of payments purposes) was SDR 647 million at year's end (including SDR 160.9 million in loans to the Fund under the SFF line of credit), compared to SDR 692 million at the end of 1984. No purchases were made of Canadian dollars last year through the Fund. Canadian dollars were used in repurchases amounting to SDR 57 million.

Revenues received by Canada in 1985 from the Fund totalled near SDR 42 million. Of this SDR 15.5 million represented interest on SFF loans, SDR 19.6 million interest on Canada's net creditor position in the General Resource Account, and SDR 5.5 million in earnings on SDR holdings. Interest charges of SDR 87 million were incurred by Canada on SDRs allocated by the Fund in previous years.

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 1984, this line of credit available from Canada was not utilized by the Fund last year. In addition to participating in the GAB, Canada has also made available support for Fund activities under the SFF and the EAP. Outstanding loans by Canada in support of the SFF amounted to SDR 161 million at the end of 1985. As a participant in the financing of the Fund's Enlarged Access Program, Canada made available a line of credit of SDR 50 million in 1981. This amount was committed through the Bank of Canada under a stand-by facility with the BIS in favour of the IMF. The full amount of this line of credit was drawn upon in 1983 and matured in 1985. As part of the 1984 SDR 3 billion lending arrangement between the industrial countries and the IMF in support of the EAP, Canada provided, through the Bank of Canada, loan guarantees of SDR 180 million for BIS loans to the IMF. This commitment will only involve a cash payment by Canada in the event that the BIS encounters liquidity problems or the IMF is unable to repay its loans.

Canada's cumulative allocation of SDRs remained at SDR 779 million during 1985. At the end of the year Canada's holdings of SDRs amounted to SDR 198 million or 25.5 per cent of its cumulative allocation.

A team of IMF officials visited Ottawa in November 1985 as part of the annual consultation procedure under Article IV of the Fund's Articles of Agreement which provides for regular reviews of member countries economic policies.

In 1985, the Honourable Michael Wilson, Minister of Finance represented Canada on the IMF Board of Governors. In 1985 Marcel Massé replaced Mr. R.K. Joyce as Canadian representative on the Fund's Executive Board. Mr. Massé also serves as Director for Ireland, Jamaica, the Bahamas, Barbados, Belize, St. Lucia, Grenada, Antigua, St. Vincent, St. Christopher and Nevis and Dominica.

The Board of Governors held its Annual meeting in Seoul, Korea in October 1985. The Interim Committee, which is the 22 member ministerial committee which advises the Board of Governors and gives general guidance to the Executive Board, met twice, in Washington on April 17, 1985 and in Seoul on October 6, 1985.

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 channeling 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 problem of greater equity in the distribution of benefits from development. This has meant increased emphasis on the type of projects which affect the living conditions of the poorest groups in the developing world, e.g., agriculture, population planning, and urban housing.

In respect of coordination, the World Bank has been active in establishing 24 ongoing aid coordination groups for recipient countries, of which one is the Caribbean Group for Cooperation and Economic Development, and is participating in two additional groups, one chaired by the Netherlands for Indonesia and the other by the OECD for Turkey. Upwards of 36 nations and more than 20 international agencies have been associated with one or more of these aid-coordinating activities. (Canada's participation in World Bank Consortia and Consultative Groups, as well as other aspects of World Bank Activity, is described in a separate section of this report entitled 'Canada and the World Bank Group'.)

The World Bank also maintains close working relationships with other international organizations concerned with development assistance, particularly the United Nations, the United Nations Development Program (UNDP), the United Nations' specialized agencies, the regional development banks and the Organization for Economic Cooperation and Development. For example, the World Bank and the United Nations exchange information and coordinate technical assistance and other development activities through a high level liaison committee, and the World Bank Group has acted as an executing agency for a number of pre-investment studies financed by the UNDP. Also, the World Bank and the IMF established in 1974 a Joint Committee of the Boards of Governors of both institutions to seek ways to improve the flow of financial assistance to developing countries. This Committee, referred to as the Development Committee, met twice during 1985 at the ministerial level.

Resources

(a) World Bank Resources

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

(i) Paid-in capital

Of authorized capital of SDR 78.6 billion (equivalent to U.S.\$86.3 billion as of December 31, 1985), U.S.\$66.9 billion had been subscribed and U.S.\$5.8 billion of this amount had been paid in. These amounts include the commitments member governments undertook in the following two agreements.

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

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

(ii) Borrowing

As of December 31, 1985, the World Bank had outstanding borrowings of \$57.9 billion (of which \$3.6 billion were short-term borrowings). The net increase in long-term borrowings in 1985 was \$15.15 billion.

(iii) Net Income from Operations

As of December 31, 1985, undistributed retained earnings amounted to approximately \$5.7 billion. Net income in 1985 was \$694.5 million as compared with \$929.3 million in 1984.

(b) IDA Resources

IDA's loanable resources (\$43.8 billion) have been derived largely from budgetary allocations from its Part I member governments, most of which are developed countries. Total resources made available or committed by member governments, including qualified commitments, to IDA from the beginning of its operations to the end of 1985 were approximately \$38.6 billion. Other resources that have become available to IDA since its inception totalled \$5.2 billion. These were largely derived from transfers by the World Bank of a portion of its net earnings to IDA (\$2.1 billion). The remainder has come from contributions from Switzerland and repayments by IDA borrowing countries.

A central concern during 1985 was the economic plight of Sub-Saharan Africa. The World Bank is playing an important role in assisting African governments to formulate and implement programs of policy and institutional reform so as to strengthen their growth prospects. In February 1985 agreement was reached between fourteen countries and the Bank to augment the resources of IDA with a further \$1.1 billion, to be committed over three years, under a Special Facility for Sub-Saharan Africa. This facility, administered by IDA, came into operation on July 1, 1985 and provides quick-disbursing loans in support of adjustment. By the end of 1985 the size of the facility stood at \$1,321 million.

At the October 1985 meeting of the Development Committee Ministers stressed the importance of ensuring that adequate amounts of concessional financing are made available to low-income developing countries via IDA. In order to facilitate this, the first meeting of donor countries met in January, and set the goal of obtaining agreement on an IDA-8 replenishment by September 1986.

Loans and Credits

(i) IBRD Loans

As of December 31, 1985, IBRD had approved loans cumulatively totalling \$110.00 billion⁽¹⁾ (net of cancellations, terminations and refunds) to 105 of its 149 members. The World Bank's loans are long term (15 to 20 years maturities at present) and carry rates of interest which approach commercial rates. Since July 1, 1982, the lending rate is determined every six months as of January 1 and July 1 based on the average cost of the pool of IBRD borrowings over the preceding six months plus a spread of 50 basis points. At the end of December 1985, the IBRD lending rate was 8.82 per cent.

(ii) IDA Credits

As at December 31, 1985, IDA had lent \$37.05 billion (net of cancellations, refunds and terminations) to 85 of its 134 member countries. IDA's development credits are interest-free (although there is a service charge of 3/4 of 1 per cent on disbursed and outstanding balances) and are extended for a 50-year term with 10 years' grace. On January 5, 1982, in an effort to increase the funds available to IDA and to reduce IDA's operating deficits, the Board of Directors authorized a commitment fee for IDA development credits of 0.5 per cent on undisbursed balances for IDA credits negotiated after that date.

(1) includes IFC and Taiwan.

THE INTERNATIONAL FINANCE CORPORATION (IFC)

The IFC supplements the activities of the World Bank and IDA by making and encouraging investments on commercial terms in productive private enterprises in developing member countries. With the addition of two countries in 1985, the IFC now has 128 members. The total resources available at the end of 1985 amounted to \$1,566.7 million; these were derived from paid-in capital subscribed by member governments (\$545.8 million), World Bank loans - drawn and outstanding (\$749.8 million), and the accumulated earnings (\$271.1 million) which was derived from income on operations.

IFC's commitments during calendar year 1985 amounted to \$615.5 million, bringing the total cumulative gross commitments since inception of operations to \$6,237.9 million in 86 countries.

GENERAL REVIEW

Total loans, credits and investments signed (net of cancellations, terminations and refunds) by the World Bank Group in 1985 and in the three preceding years were as follows:

	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>
	(in millions of U.S. dollars)			
World Bank	9,676*	11,932*	9,506*	17,426
IDA	2,824	3,112	3,336	4,731
IFC	<u>383</u>	<u>654</u>	<u>409</u>	<u>616</u>
TOTAL	12,883	15,698	13,251	22,773

* Including loans to IFC of \$11.2 million in 1982, \$39.8 million in 1983, and \$124.0 million in 1984.

Table I annexed to this Report lists World Bank and IDA loans and credits during 1985 according to geographical area and purpose, while Table II is a historical summary of loans and credits by year, geographical area and purpose. IFC investments and commitments are listed in Table III.

CANADA AND THE WORLD BANK GROUP

Canadian Representation on World Bank Group Executive Boards

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

Funds Subscribed or Contributed

World Bank - To the end of 1985, Canada's subscription to the World Bank's capital stock was \$2,597.5 million of which U.S.\$209.0 million (Cdn.\$242.8 million) has been paid in.

IDA - As a Part I member of IDA, Canada had to the end of 1985 paid U.S.\$1,902.0 million (Cdn.\$2,231.2 million) to the Association. By December 31, 1985 Canadian contributions to IDA 7 amounted to Cdn. \$308.4 million. As well Canadian contributions to the Special Facility for Sub-Saharan Africa amounted to Cdn. \$25 million in 1985.

IFC - Canada's total subscription to the IFC since it became a member of the Corporation in 1956 amounts to U.S.\$21.7 million.

Capital Increases and Replenishment

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

is entitled to subscribe to an additional 1,976 shares which for the most part allow it to maintain its share of the IBRD's capital (2.92 per cent as compared to 2.93 per cent before the capital increase). In subscribing to our full share of the capital increase, the total cost would approximately be Cdn. \$29.2 million paid-in and Cdn. \$312.8 million callable (at current exchange rates). Payments to the World Bank began in 1985 and will be completed by January 1, 1987.

IDA

- The IDA 7 negotiation completed in 1983, resulted in a U.S. \$9 billion replenishment which will finance its lending program through to 1987. Canada's share is 4.5% or Cdn. \$499.7 million (the exchange rate for national currencies was set during the negotiations). This share is below Canada's cumulative share of 5.11 per cent but slightly more than its 4.3 per cent share of IDA 6. Payments will be completed in 1986.

In addition, Canada has agreed to contribute Cdn. \$100 million to the Special Facility for Sub-Saharan Africa. Payments will be completed by 1987.

IFC

- The total capital increase of U.S. \$650 million for the IFC was adopted by the Board of Governors on December 26, 1985. Canada voted in favour of this resolution. Under the capital increase, Canada can subscribe to as much as 25,024 shares in the Corporation, valued at U.S. \$25,024 thousand. Subscription will be entirely paid-in and will take place through installments over a number of years.

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. When the U.S. dollar was devalued relative to gold in the early 1970s, a number of countries incurred maintenance of value obligations on their share of paid-in capital subscriptions and contributions. The World Bank agreed not to seek payment of these obligations pending the establishment of a new standard of value for the Bank. Maintenance of value obligations do not exist for IDA contributions.

World Bank Borrowings in Canada

From 1952 through 1971, the Bank borrowed Cdn. \$150 million in the public markets of Canada and Cdn. \$50 million through a private placement. From 1972 through 1981, the Bank did not borrow in Canadian dollars. Since 1982, however, the Canadian dollar has become an important source of currency diversification and has been a vehicle utilized in the Bank's currency swap operations. The Bank has raised Canadian dollars through public issues in the domestic, euro, and asian markets as well as through private placements. At December 31, 1985, the Bank had borrowed an aggregate principal amount of Cdn. \$1,255 million of which Cdn. \$887 million (U.S. \$634 million) was outstanding. These amounts include the Bank's only floating rate issues denominated in a currency other than U.S. dollars. The Bank borrowed Cdn. \$200 million in 99-year floating rate notes through private placement to institutional investors, in late 1984 early 1985, then the longest maturity for any borrowings completed by the Bank.

In the official sector, the Bank of Canada, as fiscal agent of the Government of Canada, has purchased an aggregate principal amount of U.S.\$324.1 million of the Bank's traditional two-year U.S.\$ denominated offerings to central banks. At December 31, 1985, U.S.\$56 million of these bonds were held by the Bank of Canada. In addition, the Bank of

Canada has invested U.S.\$50 million in the Bank's central bank facility, a one-year instrument carrying a floating rate of interest set at a spread over the one-year U.S. Treasury Bill.

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

Total identifiable expenditures in Canada by World Bank and IDA borrowers to December 31, 1985 were about U.S.\$1.07 billion.

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

Canada's performance in this regard has improved markedly since 1980. Over the past four years (1982-85), Canadian suppliers of goods and services won about 2.5 per cent of OECD member procurement compared to about 2.0 per cent over the preceding four years. From 1982-85, Canada's procurement was distributed in four broad categories: consultant services (41.5%), civil works (12.3%), machinery and equipment (24.17%) and other materials (13.6%).

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

Canadian Personnel

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

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

Canada has been a member of the Consortia for Aid to India and Pakistan since their establishment in 1958 and 1960 respectively, and is a member of Consultative Groups organized by the World Bank to review the economic situation and policies of and coordinate assistance to Bangladesh, the Caribbean (CGCED), Colombia, Egypt, India, Kenya, Madagascar, Malawi, Nepal, Pakistan, Peru, Sri Lanka, Sudan, Tanzania, Tunisia, Uganda, Zaire and Zambia. Canada is also a member of the Intergovernmental Group for Indonesia, and participated in the creation of a Consultative Group for Senegal.

In 1985, Canada through the Canadian International Development Agency (CIDA) participated with the World Bank in projects in Bangladesh, Burkina Faso, Cameroon, Congo, Egypt, Ghana, Guinea, Honduras, Indonesia, Ivory Coast, Kenya, Leeward and Windward Islands, Malaysia, Mauritania, Morocco, Pakistan, Sri Lanka, Thailand, and Zaire. Canada also participated with other donors under the co-ordination of IDA in the Cumberland Hydro Project in St. Vincent.

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

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

TABLE I - TABLEAU I
World Bank Loans and IDA Credits
Prêts de la Banque mondiale et crédits de l'AID
January 1 - December 31, 1985/1^{er} janvier - 31 décembre 1985
(Millions of U.S. dollars - en millions de dollars É.-U.)

	WORLD BANK- BANQUE MONDIALE		IDA - AID		TOTAL	
	No.-N ^{bre} <u>No.-N^{bre}</u>	Amount- Montant <u>Montant</u>	No.-N ^{bre} <u>No.-N^{bre}</u>	Amount- Montant <u>Montant</u>	No.-N ^{bre} <u>No.-N^{bre}</u>	Amount- Montant <u>Montant</u>
<u>BY AREA - RÉGION</u>						
East Africa - Afrique orientale	8	108.3	34	592.5	42	700.8
West Africa - Afrique occidentale	14	621.7	30	468.7	44	1090.4
Europe, Middle East & North Africa - Europe, Moyen-Orient et Afrique du Nord	39	2,698.2	6	54.8	45	2,753.0
Latin America & Caribbean - Amérique latine et les Antilles	45	4,469.1	2	23.8	47	4,492.9
East Asia and Pacific - Asie orientale et le Pacifique	39	2,802.1	7	511.3	46	3,313.4
South Asia - Asie du sud	14	2,419.0	24	1,672.6	38	4,091.6
TOTAL	159	13,118.4	103	3,223.7	262	16,442.1
<u>BY PURPOSE - OBJET</u>						
Agriculture - Agriculture	38	2,552.6	41	1,579.0	79	4,131.6
Development Finance Companies - Sociétés financières de développement	11	995.4	6	79.3	17	1074.7
Education - Éducation	10	585.3	9	342.7	19	928.0
Industry - Industrie	12	1,136.0	2	12.9	14	1,148.9
Energy - Énergie	10	1,049.5	5	128.8	15	1,178.3
Non-project - Hors projet	3	630.0	7	214.2	10	844.2
Population - Population	8	253.0	3	81.1	11	344.1
Power - Énergie électrique	17	2,491.3	6	186.1	23	2,677.4
Small Scale Enterprise (1) Petites Entreprises	-	-	-	-	-	-
Technical Assistance - Assistance technique	5	34.5	5	33.2	10	67.7
Telecommunication - Télécommunications	3	59.6	1	22.0	4	81.6
Tourism - Tourisme (2)	-	-	-	-	-	-
Transportation - Transport	21	2,012.5	9	256.9	30	2,269.4
Urban Development - Développement urbain	11	549.1	3	222.0	14	771.1
Water Supply - Adduction d'eau	10	769.6	6	165.5	16	935.1
TOTAL	159	13,118.4	103	3,323.7	262	16,442.1

- 1) Included in Industry
Inclus dans Industrie
- 2) No lending for tourism has taken place since FY80.
Aucun prêt pour le tourisme n'a été consenti depuis 1980.

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

	World Bank Loans <u>Prêts de la Banque mondiale</u>		IDA Credits <u>Crédits de l'AID</u>	
	<u>No. Nbre</u>	<u>Commitments Engagements</u>	<u>No. Nbre</u>	<u>Commitments Engagements</u>
By Fiscal Year* - Année financière*				
Cumulative to 1968 - Cumulé jusqu'en 1968	549	11,418.1	116	1,831.8
Total 1969-1973	374	8,917.8	273	3,931.6
Total 1974-1978	666	24,372.3	376	7,947.4
1978-1979	142	6,989.0	105	3,021.5
1979-1983	711	44,908.0	518	16,368.1
1983-1984 (FY-84)	129	11,947.2	106	3,575.0
1984-1985 ((FY-85)	131	11,356.3	105	3,028.1
1985-1986 (July-Dec./85)	47	2,877.0	27	960.4
TOTAL	2,607	115,796.7	1,521	37,642.4
By Purpose - Objet (Cumulative to Dec. 31, 1981 - Cumulé jusqu'au 31 déc. 1981)				
Agriculture and Rural Develop- ment - Agriculture et développement rural	589	23,901.3	587	14,550.1
Education - Éducation	160	4,406.4	146	2,404.9
Energy - Énergie	74	6,539.0	42	656.0
Industrial Development and Finance - Développement et financement de l'industrie	261	11,011.1	59	925.4
Industry - Industrie	213	10,560.4	69	1,710.0
Non-Project - Hors projet	71	7,182.4	65	3,741.3
Population and Nutrition - Population et alimentation	28	634.3	25	620.6
Power - Énergie électrique	401	20,862.1	77	4,064.0
Small-scale enterprises ¹⁾ - Petites entreprises	-	-	-	-
Technical Assistance - Assistance technique	24	203.6	70	451.4
Telecommunications - Télécom- munications	64	1,828.2	33	1,108.2
Tourism - Tourisme ²⁾	-	-	-	-
Transportation - Transport	501	20,756.5	250	4,875.6
Urban Development - Dévelop- pement urbain	86	3,325.6	34	998.0
Water Supply and Sewerage - Adduction d'eau et assainis- sement	135	5,585.8	74	1,536.9
TOTAL	2,607	115,796.7	1,521	37,642.4

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

1) Included in Industry

1) Inclus dans Industrie

2) Prior to FY-80 Lending to Tourism was included in industry; no lending has taken place since FY-80.

TABLE III - TABLEAU III
Summary of IFC Operations as of December 31, 1985
Résumé des opérations de la SFI au 31 décembre 1985

	No. of Commitments <u>-Nombre d'engagements</u>	Total Commitments <u>- Engagements totaux</u> (Millions of U.S. dollars - en millions de dollars E.-U.)	Disbursements <u>-Versements</u>
By Fiscal Year - Année financière			
Up to 1970	160	470.5	291.8
1970-1971	23	101.4	72.0
1971-1972	19	115.6	60.8
1972-1973	25	146.7	88.1
1973-1974	32	203.4	162.5
1974-1975	31	211.7	184.4
1975-1976	33	245.3	199.7
1976-1977	34	206.7	259.9
1977-1978	40	333.0	155.1
1978-1979	46	405.9	205.4
1979-1980	54	649.6	311.8
1980-1981	45	737.4	587.4
1981-1982	46	380.1	530.2
1982-1983	37	332.8	374.4
1983-1984	45	770.0	380.9
1984-1985	66	481.2	350.4
1985-1986 (July-Dec. 85) (juillet-déc. 85)	29	446.6	199.5
Cumulative to Dec. 1985 - Cumulé à déc. 1985	765	6,237.9	4,414.3
Cancellations, revaluations and write-offs - Annulations, réévaluations et amortissements	-	<u>494.9</u>	-
Net Commitments - Engagements nets	-	<u>5,743.0</u>	<u>4,414.3</u>

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

To December 31, 1985 - au 31 décembre 1985

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

	<u>World Bank - Banque mondiale</u>	<u>IDA - AID</u>	<u>Total</u>
By Calendar Year - Année civile			
Cumulative to December 31, 1960 - Cumulé au 31 décembre 1960	133.5	-	133.5
1961	8.2	-	8.2
1962	3.7	-	3.7
1963	5.6	7.4	13.0
1964	4.7	1.8	6.5
1965	5.4	2.7	8.1
1966	11.6	5.3	16.9
1967	13.2	14.7	27.9
1968	6.3	7.8	14.1
1969	4.4	11.0	15.4
1970	7.6	1.3	8.9
1971	11.1	2.2	13.3
1972	10.5	2.3	12.8
1973	12.4	5.1	17.5
1974	15.8	8.4	24.2
1975	22.1	15.0	37.1
1976	25.7	10.8	36.5
1977	34.5	4.8	39.3
1978	26.1	5.5	31.6
1979	44.4	8.1	52.5
1980	51.5	7.8	59.3
1981	94.3	14.5	108.8
1982	75.0	17.6	92.6
1983	82.3	26.9	109.2
1984	92.6	54.3	146.9
1985 (July - Dec. 85) (juillet - déc. 85)	<u>94.3</u>	<u>39.7</u>	<u>134.0</u>
TOTAL	896.8	275.0	1171.8
Per Cent of Total Disbursements* - Pourcentage du total des dépenses*			
	2.0	1.8	1.9

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