Report on Operations Under the Bretton Woods and Related Agreements Act

2002

Canada

Report on Operations under the Bretton Woods and Related Agreements Act 2002

Prepared by:
International Trade and Finance Branch
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INTRODUCTION

The Bretton Woods institutions—the International Monetary Fund (the IMF or the Fund) and the World Bank (the Bank)[1]—were founded at a conference held at Bretton Woods, New Hampshire, in 1944. The IMF was established to promote the smooth functioning of the international monetary system, encourage international trade and support high rates of sustainable economic growth. To achieve these goals, it exercises a surveillance function by monitoring members' economic policies, provides policy advice and technical assistance, and extends short- and medium-term financial assistance to countries faced with balance of payments difficulties.

The World Bank's goal is to reduce poverty by raising living standards and promoting sustainable development in developing countries. As the premier development institution in the world, it provides a wide range of assistance to developing countries, including economic policy advice, and lending and technical assistance for projects that promote sustainable growth and an improved quality of life.

Canada is the eighth largest member of the IMF (as measured by quotas), tied with China, after the six other Group of Seven (G-7) countries and Saudi Arabia. Along with China, Italy, Russia, India and Saudi Arabia, Canada is the sixth largest shareholder of the World Bank. On the Executive Boards of the two institutions, Canada represents Antigua and Barbuda, the Bahamas, Barbados, Belize, Dominica, Grenada, Ireland, Jamaica, Saint Kitts and Nevis, Saint Lucia, and Saint Vincent and the Grenadines. On the Bank's Executive Board, Canada also represents Guyana. Canada's formal participation in the two institutions is authorized under the Bretton Woods and Related Agreements Act. Section 13 of the Act states that:

> The Minister of Finance shall cause to be laid before Parliament, on or before March 31 next following the end of each calendar year or, if Parliament is not then sitting, on any of the first thirty days next thereafter that either House of Parliament is sitting, a report containing a general summary of operations under this Act and details of all those operations that directly affect Canada, including the resources and lending of the World Bank Group, the funds subscribed or contributed by Canada, borrowings in Canada and procurement of Canadian goods and services.

This report has been prepared in accordance with this provision. The sections that follow review the activities and operations of first the IMF and then the Bank for the year 2002. A final section deals with issues common to both institutions. The annexes contain detailed numerical summaries of the year's activities.

[1] In this document "World Bank" and "Bank" refer to the International Bank for Reconstruction and Development and the International Development Association. "World Bank Group" and "Bank Group" refer to the broader group of World Bank institutions that includes the International Finance Corporation and the Multilateral Investment Guarantee Agency, as well as the two institutions of the World Bank proper. For more details see the box on page 31.

Roles of the International Monetary Fund and World Bank

International Monetary Fund

- Oversees the international monetary system and promotes international monetary cooperation.
- Promotes orderly exchange rate relations among member countries.
- Provides short- to medium-term financial support to members facing balance of payments difficulties.
- Provides support for poverty reduction through promotion of economic stability.
- Draws its financial resources primarily from the quota subscriptions of its members.

World Bank

- Provides support for poverty reduction in developing countries through investments in such areas as health and education.
- Promotes economic development and structural reform in developing countries.
- Assists developing countries through long-term financing of development projects and programs.
- Provides special financial assistance to the poorest developing countries through the International Development Association.
- Stimulates private enterprise development and private investment in developing countries primarily through its affiliates, the International Finance Corporation and the Multilateral Investment Guarantee Agency.
- Enhances the flow of capital and technology for productive purposes to developing countries by providing investment insurance against non-commercial risks for investments in developing countries.
- Secures most of its financial resources by borrowing on international capital markets.

International Monetary Fund

Overview

As a major trading nation, Canada benefits from a strong international monetary system that facilitates the free movement of goods, services and capital. The IMF promotes international financial stability and economic growth through the provision of policy advice and financial and technical assistance to countries experiencing unsustainable external imbalances and related economic difficulties.

Benefits of Membership

IMF membership provides a number of specific benefits:

- The Minister of Finance is a Governor of the Fund and elects an Executive Director to its 24-member Executive Board. This representation allows Canada to have high-level influence on decisions taken by the IMF on specific country assistance programs and major policy issues affecting the world monetary and financial system.
- The IMF, through its regular surveillance of the Canadian economy, provides Canada with an independent source of policy advice on macroeconomic policies and engages in regular dialogue on these policies with Canadian officials at the Department of Finance, other government agencies and the Bank of Canada.
- The efforts of the IMF to make sure that countries abide by their obligations, including those under Fund-supported programs, help ensure that they repay Canadian bilateral loans and use our bilateral development assistance effectively.
- Canada earns a market rate of return on its financial position in the IMF.
- Were Canada to experience severe balance of payments difficulties, it would have the right to draw on IMF financial assistance.

How the IMF Works

The IMF works like a credit union. It has a large pool of liquid assets, or resources, comprising convertible national currencies, special drawing rights,[1] and other widely used international currencies provided by its members, which it makes available to help members finance temporary balance of payments problems.

Members provide resources to the IMF in amounts determined by "quotas" reflecting each country's relative importance in the world economy. A country's quota in turn helps determine the amount of Fund resources that it may use should it experience economic difficulties. At the end of 2002 the total quota for the Fund's 184 members was SDR 212.7 billion.

A member country uses the general resources of the IMF by purchasing (drawing) other members' currencies with an equivalent amount of its own currency. A member repurchases (repays) its own currency from the IMF with other members' currencies over a specified period of time, with interest. In this way, a member country receives credit from other members.

Members seeking financial assistance can draw on four "credit tranches," each amounting to 25 per cent of their quota. For access to resources beyond the first credit tranche, the member and the IMF have to reach an agreement on a set of economic measures and reforms aimed at removing the source of the country's balance of payments difficulty and creating the conditions necessary for sustainable non-inflationary growth.

Depending on the prospective duration of the problem, these measures are agreed to as part of a Stand-By Arrangement, which typically lasts one to two years, or an Extended Fund Facility, which generally runs for three years. Short-term financing for balance of payments difficulties related to crises of market confidence is also available through the Supplemental Reserve Facility, created in December 1997. A precautionary line of defence is available through Contingent Credit Lines, established in April 1999, to countries that are pursuing sound policies but are nonetheless vulnerable to contagion.

Members can also use financial facilities created for specific purposes, including the Compensatory Financing Facility, which provides financial support to members experiencing temporary export shortfalls or other unforeseen adverse external shocks.

Concessional financing to low-income developing countries under the Poverty Reduction and Growth Facility (formerly the Enhanced Structural Adjustment Facility) is made available in the form of low-interest loans with extended maturity periods.

[1] The special drawing right (SDR) is an international reserve asset created by the IMF and allocated periodically to its members as a supplement to their foreign currency and gold reserves. The SDR is also the standard unit of account for the IMF's operations. It represents a weighted basket of four major currencies: the US dollar, the Japanese yen, the pound sterling and the euro. At the end of 2002 the exchange rate was SDR 1 = C$2.15.

Canada's Priorities at the IMF

Global Economic and Financial Stability

Recent emerging market financial crises have underscored the need to strengthen the global financial architecture—the global institutions and rules that govern international economic and financial cooperation. Motivated by the increased role of private capital flows in the global economy and the lessons drawn from recent financial crises, the IMF has been engaged over the past several years in a process of reform. The reforms underway are aimed at making the Fund more effective in promoting greater financial stability and helping countries benefit from the opportunities of global economic integration.

In cooperation with its international partners, Canada has played an active role in identifying areas where reforms are required and taking steps to implement those reforms. To enhance the Fund's effectiveness, reforms have focused on six main areas:

- improving transparency, accountability and openness;
- strengthening surveillance and crisis prevention;
- enhancing crisis resolution;
- improving the effectiveness of IMF lending;
- safeguarding the IMF's cooperative nature; and
- strengthening support for low-income countries.

At its September 2002 meeting, the International Monetary and Financial Committee of the IMF welcomed the progress achieved over the past two years and supported continued work by the Fund in these areas.

Looking forward, a key objective for Canada is to ensure that the Fund has the tools to promote international financial stability. To meet this objective, Canada supports:

- strengthening surveillance to prevent crises through greater attention to financial vulnerabilities and increased transparency of information;
- improving the institutional capacity of countries to support strong macroeconomic frameworks and more resilient financial systems;
- enhancing crisis resolution;
- improving IMF lending to promote economic reform; and
- strengthening governance and accountability of the IMF and its members.

Canada continues to place a high priority on strengthening support for low-income countries. The IMF plays a crucial role in supporting macroeconomic stability as a key tool for poverty reduction in the poorest countries and is integrating its efforts with those of the World Bank.

The Fund's involvement in the key areas outlined above, and Canada's priorities related to these efforts, are described in more detail in the section entitled "Efforts to Promote International Financial Stability," which follows the next section.

Economic and Financial Developments in Emerging Markets

As in 2001, emerging market economies continued to be affected by uncertainties facing the global economy. However, some economies and regions fared worse than others in 2002. In particular, several Latin American countries experienced serious political and economic instability due to a combination of domestic factors, weak global demand and increased investor risk aversion.

One of the countries facing the most serious challenges in 2002 was Argentina. Following the suspension of Argentina's IMF program in late 2001, Argentina and the IMF engaged in negotiations in 2002 on the terms of a new program aimed at stabilizing Argentina's financial situation and establishing the foundations for resuming growth. But this met with little success. Argentina went into arrears on its payments to the World Bank and the Inter-American Development Bank (IDB) in late 2002. Further, Argentina was in danger of not meeting commitments to the IMF. In January 2003, Argentina and the IMF negotiated a "transitional" agreement that allowed Argentina to roll over its payments due to the IMF from January to August 2003. Following the agreement with the IMF, Argentina cleared its arrears to the World Bank and the IDB, paving the way for new lending and the unfreezing of payments from old loans to the country.

Argentina's difficulties contributed to an economic crisis in neighbouring Uruguay, which received a total of US$2.8 billion in 2002 under a Stand-By Arrangement from the IMF. In Brazil, despite an apparent stabilization of the economy early in 2002, uncertainty over the outcome of presidential elections in October contributed to a weakening currency and increased credit risk beginning in April 2002. Amid growing market concerns over Brazil's fiscal and external debt sustainability, the IMF approved a record US$30-billion Stand-By Arrangement in September 2002. Although the IMF program did not immediately lead to a restoration of investor confidence, financial market reaction began to stabilize following market-friendly comments made by Luiz Inácio "Lula" da Silva, who was ultimately elected President. By contrast, Mexico managed to remain relatively immune from the crises affecting its Latin American neighbours and recovered from its recession as economic prospects in the US, its main trading partner, improved somewhat in 2002.

In Turkey, which received a US$16.3-billion Stand-By Arrangement in February 2002, macroeconomic developments were encouraging throughout most of the year. Despite some market instability triggered by earlier-than-expected elections in November, real gross domestic product (GDP) in 2002 was estimated to have grown twice as fast as projected, while year-end inflation slowed to the lowest rate in two decades. However, Turkey's high domestic debt left the economy highly vulnerable to sudden shifts in market confidence, a key issue in the final days of 2002. Doubts over the incoming government's commitment to the IMF program added to concerns over the economic consequences of a possible war in Iraq. These developments contributed to higher short-term interest rates as well as a weakening in the currency and in stock prices in early 2003.

East Asia enjoyed a strong rebound in growth in 2002, despite the dampening effect on tourism and on business and consumer confidence following the terrorist attack in Bali in October 2002. The region's recovery was broadly based, underpinned by both strong external and domestic demand. There was a revival in exports, including in the high tech sector, as well as some recovery in export commodity prices. Intra-regional exports were particularly strong, most notably to China. In general, most emerging markets in East Asia proved to be resistant to spillovers from developments in Argentina and Turkey, whether in terms of bond spreads or international capital market access. Regional equity markets were also resilient and generally outperformed markets elsewhere in the world.

In Russia real GDP growth was robust, reflecting prudent macroeconomic policies, increased capacity utilization, and a firming in world oil prices. Strong, albeit declining, balance of payments and fiscal surpluses enabled the government to repay more than US$1.8 billion to the IMF.

IMF-Led Packages for Emerging Economies

Contributions (in billions of US dollars)

Donor	Turkey	Brazil	Uruguay
IMF (% of quota)	25.3 (2,050%)	30.0 (750%)	2.8 (694%)
Type of program and approval date	Supplemental Reserve Facility (December 2000), Three-Year Stand-By Arrangement (February 2002)*	Supplemental Reserve Facility, 15-month Stand-By Arrangement (September 2002)	Two-year Stand-By Arrangement/ Supplemental Reserve Faciliy (augmented in June and August 2002)**
Other international financial institutions	1.2		1.1
Total	26.5	30.0	3.9

* A three-year Stand-By Arrangement (SBA) worth US$4 billion was originally approved in December 1999 and was augmented by US$8 billion in May 2001. A Supplemental Reserve Facility loan worth US$7.4 billion was approved in December 2000. A new three-year SBA worth US$16.3 billion, which included US$4.2 billion remaining under the previous SBA as well as US$6.2 billion in Supplemental Reserve Facility repayments, was approved in February 2002. Net of these amounts, the new SBA was worth US$5.9 billion.

**A two-year SBA worth US$781 million was approved by the IMF in March 2002 and was augmented by US$1.5 billion in June 2002. Further augmentation of the program in August 2002 brought the total size of the IMF arrangement to US$2.8 billion.

Efforts to Promote International Financial Stability

Improving Transparency, Accountability and Openness

Canada supports measures to enhance the transparency and accountability of the Fund's own operations. This reflects the view that the IMF's effectiveness depends in part on its ability to be transparent and fair in the provision of policy advice to its members, accountable for its advice and lending decisions, and open to external input and dialogue.

In September 2002 the IMF's Executive Board reviewed the transparency guidelines adopted in 2000, under which the Fund now publishes most of its own policy papers and detailed information about its operations and finances. The Board commended the significant increase in the availability of information about the Fund and its assessments of members' policies. The key initiatives include:

- Publishing more information about IMF surveillance of members, including Public Information Notices (PINs), which provide background information on a member country's economy and the IMF's assessment of the country's policies and prospects. PINs are issued at the country's request following the conclusion of the Fund's regular Article IV consultation with the country. Full Article IV staff reports are now published when the country concerned agrees. Canada's most recent PIN and Article IV report can be found on the IMF Web site at www.imf.org/external/country/can/index.htm. Over 80 per cent of IMF member countries have agreed to the publication of PINs.
- Encouraging countries to publish the "mission statements" that are prepared at the time of the IMF's annual Article IV consultations with member countries. Prior to the preparation of the staff's report to the Executive Board, the IMF mission often provides the country's authorities with a statement of its preliminary findings at the conclusion of its discussions with them. A number of countries, including Canada, are now releasing these statements. Canada's most recent mission statement can be found on the IMF Web site at www.imf.org/external/country/can/index.htm.
- Releasing more information about countries' IMF-supported programs and the Executive Board reviews of these programs. The Fund has adopted a policy establishing a presumption in favour of publication of Letters of Intent and other documents that underpin Fund-supported programs. Nearly all policy intention documents of countries requesting Fund financial assistance are published and more than half of staff reports on Article IV consultations and on the use of Fund resources are published by the voluntary decision of country authorities.
- Publishing staff papers on key policy issues and issuing PINs of the Board discussions of these papers. In addition, the Fund is increasingly posting draft papers on important policy issues on its Web site so that the views of civil society can be taken into account. As well, more financial information is being released about the IMF, including the sources of financing for IMF lending (the quarterly financial transactions plan).

- Providing the public with substantially expanded access to the Fund's archival material.

The Fund is also working to deepen its understanding of international capital markets and financial flows. In 2001 it established the International Capital Markets Department in order to enhance its ability to identify crises early enough to address them effectively. The new department will also strengthen the Fund's ability to help countries gain access to international capital markets, an important step in helping the poorest countries make a breakthrough in poverty reduction. The department's research is summarized quarterly in a new publication, the *Global Financial Stability Report*. In addition, the Capital Markets Consultative Group was established to promote a better dialogue between member countries and private investors and creditors.

With respect to accountability and openness, the IMF has established the Independent Evaluation Office (IEO) to undertake objective assessments of the IMF's operations, policies and programs. The IEO operates independently of IMF management and at arm's length from the Fund's Executive Board.

- The IEO's work program is developed following extensive consultations with government authorities, non-governmental organizations (NGOs), members of the academic community and representatives of the financial sector, as well as the staff, management and Executive Board of the IMF.
- The IEO consults extensively with external stakeholders in deriving the detailed terms of reference for each study and provides further opportunities to comment when the completed evaluation reports are made public.
- The IEO is now operational and in 2002 produced its first evaluation on the prolonged use of Fund resources. The evaluation was recently discussed by the IMF's Executive Board and the IMF will follow up on the IEO's recommendations in early 2003.
- Two more evaluations are underway, on fiscal adjustment in IMF-supported programs and the role of the IMF in three recent capital account crisis cases (Brazil, Indonesia and Korea).

Strengthening Surveillance and Crisis Prevention

Making Surveillance More Effective

Through its surveillance role, the IMF monitors economic and financial developments and policies in member countries and at the global level. Fund surveillance is critical, as it can identify emerging problems and policy imbalances before they become crises. Improved surveillance at the IMF—leading to better information for sound economic analysis, including better pricing of risk, which leads to more stable capital flows—is central to crisis prevention.

The IMF completed a comprehensive review of surveillance in 2002. The review noted that in light of large-scale private capital flows, the IMF has shifted the nature and scope of its surveillance. In recent years the IMF has:

- sharpened its focus on macroeconomic policy, capital flows and structural issues that have an impact on macroeconomic stability, particularly in the financial sector, and on exchange rates;
- developed new analytical tools for assessing external and financial sector vulnerability that will help countries assess reserve adequacy, manage their reserves, and monitor and manage their debt so as to prevent crises;
- made more effective use of the expertise of the World Bank and other institutions on relevant structural issues; and
- promoted greater transparency and information flow, for both member policies and the Fund's own activities.

Canada supports further efforts to strengthen surveillance by encouraging comprehensive and candid analysis of risks and vulnerabilities to improve program design and outcomes. In particular, it supports improving the framework for assessing the debt sustainability of countries to help diagnose potential debt servicing problems earlier.

Strengthening Institutional Capacity

The Fund is also working with other members of the international community on initiatives designed to improve the institutional capacity of countries to support strong macroeconomic frameworks and more resilient financial systems. These initiatives, which complement the Fund's surveillance framework, include work on standards and codes, data provision, strengthening financial sectors, and technical assistance.

Implementation and Assessment of International Codes and Standards

To help improve economic policy making and strengthen the international financial system, the international community has called upon the IMF and other standard-setting agencies to develop standards and codes covering a wide range of economic and financial areas. In this effort, the Fund is responsible for its core areas of expertise. To date the Fund has adopted a data dissemination standard, a code on fiscal transparency and a similar code with respect to monetary and financial policies.

Implementation is being encouraged, among other things, through the provision of targeted technical assistance in accordance with countries' domestic priorities and circumstances.

There is a general consensus that the IMF has a key coordinating role in assessing observance of codes and standards through its Reports on the Observance of Standards and Codes (ROSCs), as well as through the joint IMF-World Bank Financial Sector Assessment Program (FSAP). Recent developments regarding FSAPs are covered in the "Joint Issues" section.

The Fund has developed a modular approach to ROSCs whereby comprehensive assessments of members' adherence to a range of internationally recognized standards can be built up over time, standard by standard. ROSCs summarize the extent to which countries observe these standards, focusing primarily on the areas of direct operational concern to the IMF, such as data dissemination and fiscal transparency. ROSC modules for the financial sector are now being derived as a by-product of the FSAP process. Canada was the first country to publicly release as a ROSC the assessment of compliance with international standards conducted during its FSAP. Canada has undertaken ROSCs in the areas of banking and insurance supervision, fiscal policy transparency, monetary and financial policy transparency, payments systems and securities regulation. Overall, as of the end of 2002, close to half of the IMF's 184 member countries had completed at least one ROSC module.[2] In an article published in the summer of 2002, Fitch Ratings reported a significant relationship between publication of ROSCs and changes in sovereign ratings over the past three years, suggesting a positive impact of compliance with standards and transparency on perceptions of creditworthiness.

Strengthening Financial Sectors

The financial crises experienced by emerging market economies in recent years highlighted the critical importance of concerted action to strengthen the international financial system. In recent years the Fund has developed a comprehensive approach to promoting the stability of members' domestic financial sectors as an element of efforts to safeguard the stability of the international system (the main developments in this area are covered in the "Joint Issues" section).

In addition, the IMF is involved in international efforts on financial abuses that threaten the integrity and stability of the international financial system. In particular, the Fund has:

- expanded its anti-money laundering work, including through FSAPs, to cover legal and institutional frameworks;
- extended its involvement beyond money laundering to efforts aimed at countering terrorist financing;
- accelerated its program of offshore financial centres, and undertaken onshore assessments in the context of the FSAP;
- helped countries identify gaps in their anti-money laundering and anti-terrorist financing regimes in the context of voluntary Article IV questionnaires;
- enhanced its collaboration with the Financial Action Task Force to develop a mutually acceptable global standard on anti-money laundering; and
- intensified its provision of technical assistance to enable members to implement the agreed international standards and extend it to include help for the creation of financial intelligence units.

[2] Canada's ROSCs can be found on the IMF Web site at www.imf.org/external/np/rosc/rosc.asp#c.

At its meeting in September 2002, the International Monetary and Financial Committee welcomed the actions taken by many countries to combat money laundering and the financing of terrorism and urged countries that have not fully responded to do so urgently. The Committee also commended the substantial progress made by the Fund and the World Bank in advancing the Fund's action plan. In November 2002 the Fund:

- added the Financial Action Task Force recommendations on anti-money laundering and the financing of terrorism to the list of standards and codes for which ROSCs are undertaken in the context of the IMF-World Bank FSAP framework.
- approved a 12-month pilot project of anti-money laundering and terrorist financing assessments and accompanying ROSCs to be undertaken by the IMF, World Bank and other bodies; and
- adopted a comprehensive assessment methodology developed in collaboration with the World Bank and the Financial Action Task Force.

Technical Assistance

In addition to its policy advice and financing, the IMF provides technical assistance to member countries in its areas of expertise—including macroeconomic policy, monetary and foreign exchange policy and systems, fiscal policy management, external debt and macroeconomic statistics. It has been agreed that technical assistance should play a central role in supporting the work of the IMF in crisis prevention and management, debt relief and poverty reduction, and capacity building in low-income and transition countries.

Since the demand for IMF technical assistance normally exceeds the resources available, the IMF takes a number of considerations into account in setting priorities for country requests. Under guidelines approved in 2001, priorities for technical assistance are set in accordance with the IMF's core areas of specialization, its main program areas and its key policy initiatives, which will enable a more systematic alignment of resource commitments with institutional priorities.

In recent years the IMF has adopted a regional approach to the delivery of technical assistance and training. The IMF already operates two regional technical assistance centres, in the Pacific and the Caribbean. As part of its new Africa Capacity-Building Initiative, the Fund increased its technical assistance to the African continent while focusing it more squarely on capacity building. Under this Initiative, the IMF is establishing regional African technical assistance centres (AFRITACs) to provide capacity-building assistance through a team of resident experts, supplemented by short-term specialists in the core areas of the IMF's expertise. The East AFRITAC opened in October 2002.

Enhancing Crisis Resolution

One of the IMF's primary goals is to reduce the frequency and severity of international financial crises. Despite its crisis prevention efforts, however, financial crises will still occur. The IMF is therefore engaged in the search for possible reforms to improve its capacity to manage and resolve financial crises.

The Fund is focusing on four areas:

- strengthening the assessment of a country's debt sustainability;
- improving the clarity and predictability of the Fund's policy on access to its resources;
- clarifying the policy on Fund lending into sovereign arrears to private creditors; and
- improving the legal framework for sovereign debt restructuring.

Improving Debt Sustainability Analysis

The IMF is strengthening its framework for assessing the ability of countries to carry debt. A strengthened framework should help diagnose potential debt servicing problems earlier and inform the design of economic programs. It is expected that the framework will lead to more credible debt sustainability assessments. Canada strongly supports rigorous debt sustainability analysis to increase the probability of success of Fund programs. This includes testing the robustness of programs to a range of different assumptions about key economic variables, such as interest and growth rates.

Clarifying Access Policy

In addition, the IMF is working with its membership to establish clearer rules for determining exceptional access to its resources (i.e., loans that are larger than what is normally allowed under IMF lending rules) for countries that face financial crisis. Greater clarity will help shape the expectations of members and markets alike, provide a benchmark for decisions regarding program design and access, safeguard the IMF's resources, and ensure uniformity of treatment of members. In September 2002 the IMF's Executive Board endorsed the following criteria that would, at a minimum, need to be met to justify exceptional access for member countries facing a capital account crisis:

- the member is experiencing exceptional balance of payments pressures on the capital account resulting in a need for Fund financing that cannot be met within normal limits;
- a rigorous analysis indicates a high probability that the debt will remain sustainable;
- the member has good prospects of regaining access to private capital markets within the time Fund resources would be outstanding, so that IMF financing would provide a bridge; and

- the policy program of the member country provides a reasonably strong prospect of success, based on both the member's adjustment plans and its institutional and political capacity to implement that program.

The Board also expressed support for strengthening procedures for decision making on exceptional access proposals, including:

- increasing the burden of proof required in program documents by requiring more extensive justification of the level of access, a rigorous analysis of debt sustainability, and an assessment of the risks to the IMF arising from the exposure and the effect on the IMF's liquidity position;
- formalizing early Executive Board consultation on the status of negotiations in exceptional access cases; and
- requiring *ex post* evaluation of programs of exceptional access.

Clarifying the Policy on Lending Into Arrears

The IMF also reviewed the conditions under which it provides resources to member countries that are in arrears to private creditors. Under its arrears policy, the Fund can "lend into arrears" in cases where a debtor member needs more time to reach agreement on a financial restructuring package with private creditors. That is, the Fund stands ready to provide resources to members that are in arrears to private creditors, when prompt support for the successful implementation of the member's adjustment program (including appropriate policy reforms) is essential, and the member is making a good faith effort to reach an agreement with its creditors. The review highlighted the importance of striking an appropriate balance between the need to promote effective communication between a debtor and its creditors during the restructuring process, and the need to retain flexibility to address the diversity of individual country circumstances.

Strengthening the Legal Framework for Sovereign Debt Restructuring

Canada has long been a strong advocate of the need to put in place tools and mechanisms to facilitate the more timely, orderly restructuring of unsustainable sovereign debts. The IMF has an important role to play in this regard, given its position at the centre of the international financial system and, more importantly, its ability to help facilitate a more orderly and cooperative resolution of international payment problems.

For this reason, Canada welcomed the IMF management's proposal to develop a sovereign debt restructuring mechanism, analogous to domestic bankruptcy regimes. Over the past year the IMF has worked intensively on the proposal, which has evolved significantly to address concerns expressed by various interested parties. Consistent with directions from the International Monetary and Financial Committee (IMFC) in September 2002, the Fund is working towards setting out a concrete proposal at the Fund's spring 2003 meeting. The IMFC will review this proposal at the meeting and determine the next steps to be taken.

There is also a need to continue to improve the existing approach to crisis management. Canada attaches priority to strengthening the crisis management framework in the short term by establishing credible limits to official financing for all but exceptional cases, and developing clearer guidelines for lending into arrears. In addition, Canada supports international efforts to promote the more widespread adoption of contingency clauses, such as collective action clauses, in sovereign debt contracts, as these complement the other initiatives by facilitating the more timely, orderly restructuring of sovereign debt. Work is also proceeding on Codes of Conduct for sovereign debt renegotiation.

Improving IMF Lending

A major focus recently has been to examine how resources can be used more efficiently to meet the needs of member countries in promoting economic reform. To that end, the IMF has adopted new guidelines on the conditions attached to its loans, streamlined the structure of its lending facilities, and examined the issue of prolonged use of IMF resources.

Focusing Conditionality and Fostering Ownership

An important feature of IMF arrangements is the "conditionality" that borrowing countries undertake to correct their underlying balance of payments problems and to restore their ability to repay the Fund. Over time conditionality had broadened in scope and become more complex, leading to concerns about its impact and effectiveness. In the fall of 2002 the IMF approved new guidelines on the design and implementation of conditionality in Fund-supported programs. The new guidelines represent the outcome of a comprehensive review of conditionality that was launched in 2000. The new guidelines, the first revision since 1979, were developed following an extensive process of consultation with the public.

The review was undertaken with the aim of streamlining and focusing conditionality so as to enhance the success and effectiveness of Fund-supported programs and promote national ownership of reforms. The new guidelines emphasize the need to focus conditionality on policies that are critical to achieving the macroeconomic objectives of programs. The guidelines are based on several interrelated principles, including national ownership of reform programs, parsimony in the application of program-related conditions, effective coordination with other multilateral institutions, and clarity in the specification of program conditions.

Conditions will normally consist of macroeconomic and structural measures that are within the Fund's core areas of responsibilities. Where structural reforms that are critical to a program's success lie outside the Fund's core areas, the Fund should work with the World Bank and other international financial institutions, which have a comparative advantage in the design and monitoring of these measures. A key aspect is that the country should take primary responsibility for its own policies and that conditionality, if well designed and established through a mutually acceptable process led by the member, can strengthen and promote ownership. The challenge now is to enhance IMF lending through effective implementation of the new guidelines.

Prolonged Use of IMF Resources

In September 2002 the IMF's Independent Evaluation Office (IEO) published its first evaluation on prolonged use of IMF resources in response to concerns that prolonged use is inconsistent with the Fund's traditional mandate of providing temporary balance of payments support and undermines the effectiveness of IMF-supported programs. For the Fund, prolonged users account for a substantial share of the Fund's resources, with a potential impact on the revolving character of Fund resources and the IMF's lending ability.

The IEO evaluation showed that prolonged use (defined as being under a Fund-supported program for 7 or more years in a 10-year period) is a persistent problem, with significant adverse consequences for both the borrowing country and the IMF. For prolonged users, their programs had a negative impact on growth and achieved less fiscal adjustment compared to "temporary" users of Fund resources. According to the IEO, the perception that IMF resources would be available over the longer term, despite policy slippages, may have weakened incentives for them to take decisive action to deal with some problems.

The study found that the increase in prolonged use is partly a reflection of a broadening of the rationale for the IMF program involvement beyond achieving short-term balance of payments adjustment to help developing countries—particularly the poorest—achieve sustainable growth. Also contributing to prolonged use were design and implementation difficulties with programs that attempted to address deep-seated problems that require many years to resolve. The report makes recommendations to diminish the incentives for prolonged use, including by enhancing program effectiveness, and to reduce its adverse consequences. The IMF will follow up on the IEO's recommendations in early 2003.

Safeguarding IMF Resources

In 2000 the Fund adopted a multi-faceted approach to strengthening the safeguards on the use of IMF resources. Central banks of member countries making use of Fund resources will have to publish annual financial statements, independently audited in accordance with internationally accepted audit standards. If vulnerabilities are identified in a country's ability to manage its resources, including IMF resources, IMF staff will propose remedies, including measures to be implemented before further disbursements of IMF funds. In 2002 the Fund adopted safeguard assessments as a permanent feature of IMF operations.

Safeguarding the IMF's Cooperative Nature

The IMF's cooperative nature is reflected in its resource base, which is derived primarily from the quota subscriptions of member countries and the consensus-based nature of its decision-making process. If the Fund is to promote international financial stability effectively, it must have adequate resources and ensure that its quota structure and governance arrangements are representative of the membership.

Twelfth General Quota Review

Quota reviews are held every five years to assess the adequacy of IMF resources. In the context of the Twelfth Quota Review, the IMF's Executive Board held a number of discussions over the past two years but the broad support necessary for a quota increase did not exist.

IMF Lending Capacity

Better information on the activities of the IMF enhances the transparency and accountability of the institution. To provide a clearer understanding of the amount of its regular financing resources that is available for new lending, in December 2002 the IMF adopted a new method of measuring its liquidity. The new measure—the one-year forward commitment capacity—indicates the amount of quota-based and non-concessional resources available for lending to member countries.

The one-year forward capacity reflects the IMF's stock of usable resources minus undrawn balances for current lending arrangements, plus projected repayments by IMF borrowers over the coming 12 months. A prudential balance—to safeguard the liquidity of creditors' claims and to take account of a potential erosion of the resource base—is also deducted to arrive at the final forward commitment amount. At the end of 2002 the IMF's one-year forward commitment capacity amounted to SDR 54.7 billion (US$74 billion).

How to Access Information at the IMF

A vast array of Fund information—including fact sheets, press releases, speeches, the *IMF Survey*, annual reports, world economic outlooks, staff country reports and working papers—is available on the Fund's Web site at www.imf.org. In addition, the IMF's Publications Services provides a wide variety of Fund documents on the policies and operations of the IMF, as well as world financial and economic developments:

- IMF annual reports
- *World Economic Outlook*
- *Global Financial Stability Report*
- IMF staff country reports
- *International Financial Statistics*
- *Annual Report on Exchange Arrangements and Exchange Restrictions*
- press releases
- *IMF Survey*
- publications of the Independent Evaluation Office

Publications Services is located at 700 – 19th Street N.W., Washington, DC 20431, USA Phone: (202) 623-7430; fax: (202) 623-7201. Internet e-mail address: publications@imf.org.

Strengthening Support for Low-Income Countries

The IMF is fully committed to supporting low-income members in advancing towards the United Nations Millennium Development Goals through its poverty reduction and debt relief efforts. Canada places a high priority on reducing poverty and ensuring that debt relief does indeed go to the poorest, most heavily indebted countries committed to good governance. Although the World Bank is the central institution for poverty reduction, macroeconomic stability—a key condition for achieving poverty reduction and growth—is the responsibility of the IMF. Direct anti-poverty measures are playing a central role in programs supported by the IMF through its Poverty Reduction and Growth Facility. These programs are consistent with a comprehensive, nationally owned Poverty Reduction Strategy Paper prepared by the borrowing country and are based on a process involving the participation of civil society, NGOs, donors and international institutions. This issue is covered more extensively in the "World Bank" section.

Lending Developments in 2002

A core activity of the Fund is to provide short- and medium-term financial assistance to members faced with balance of payments difficulties. The objective is to enable countries facing such difficulties to correct temporary payments imbalances with a minimum of disruption to the international monetary system. The provision of financing from the IMF, as well as the additional financing that an arrangement with the Fund often attracts from other sources, enables countries to undertake smoother economic adjustment.

At the end of 2002 the IMF had lending arrangements worth SDR 64.6 billion in place for 52 member countries (see Annex 1). Drawings under lending commitments remained at a very high level in 2002, increasing slightly to SDR 26.5 billion. The unfavourable economic and financial conditions in some economies and regions contributed to the continued high level of lending. The bulk of the non-concessional lending took place under Stand-By Arrangements. Turkey and Brazil received the largest disbursements, some of which were financed through the Supplemental Reserve Facility, the Fund's short-term lending facility that addresses crisis situations.

Table 1
IMF Resource Flows

	2001	2002
	(in SDR billions)	
Total purchases	24.6	26.5
Of which:		
Stand-By Arrangements	23.0	23.9
Extended Fund Facility	0.7	1.3
Compensatory Financing Facility	0.0	0.0
Poverty Reduction and Growth Facility	0.9	1.3
Other	0.0	0.0
Total repurchases	14.1	16.0
Net repurchases	10.5	10.5

Lending increased under the IMF's concessional facility, the Poverty Reduction and Growth Facility. No drawings were made under the Compensatory Financing Facility, one of the Fund's other special-purpose facilities.

Managing Canada's Interests at the IMF

The Minister of Finance is Canada's Governor at the IMF and is responsible for the management of Canadian interests at the Fund. The Minister exercises influence on IMF issues through Canada's Executive Director at the Fund's Executive Board, interventions at the spring and fall meetings of the International Monetary and Financial Committee, his plenary speech at the IMF and World Bank annual meetings, and periodic meetings with the Managing Director of the Fund (the Minister's speeches are available on the Department of Finance Web site at www.fin.gc.ca). The Governor of the Bank of Canada is Canada's Alternate Governor of the IMF. The Governor also attends the Fund's spring and fall meetings.

The management of Canada's interests in the ongoing work of the IMF is the responsibility of the Executive Director, Ian E. Bennett, Canada's representative on the Executive Board. He is one of 24 Executive Directors. In addition to Canada, he represents 11 other countries (Ireland and 10 Caribbean countries), which form a constituency at the Executive Board. Of the 24 members of the current Executive Board, 12 are from developing or transition countries and 12 from industrialized countries. As the main decision-making body of the Fund, the Board normally meets three times a week.

The Department of Finance coordinates Canadian policy advice on IMF issues and Canada's operational interests in the IMF. The Bank of Canada also provides advice on IMF issues to Canada's Executive Director. Other involved government organizations include the Department of Foreign Affairs and International Trade and the Canadian International Development Agency. Within the Department of Finance, the International Trade and Finance Branch is responsible for conducting analyses and preparing advice on the policy issues and specific country programs that are brought before the Executive Board. The Department and Canada's Executive Director's office also work closely with Canada's World Bank Executive Director's office and meet frequently with Canadian NGOs.

Parliament is informed of the activities and operations of the Bretton Woods institutions through the tabling of the annual report on their operations, the communiqués of the International Monetary and Financial Committee and the Development Committee, and appearances of the Canadian Executive Directors and departmental officials before parliamentary committees.

Canada's Voting Record

Since most decisions at the Fund are taken on a consensus basis, formal votes by Governors and the Executive Board are rare. Canada attempts to influence the development of Fund policy proposals before they are brought to the Board (often through the circulation of memoranda outlining Canadian positions) or to influence other members in the course of Board discussions. But in 2002 Canada voted against an increase in the remuneration of IMF Executive Directors. Canada also abstained on a program review for Indonesia due to concerns over the deterioration in the rule of law and abstained on a request for post-conflict assistance for Burundi over concerns about the security situation.

Canada's Office at the IMF

In addition to the Executive Director, Canada's office is staffed by two Canadian advisors and two technical assistants, one of which rotates with other members of the constituency. Ireland staffs the Alternate Executive Director's position and the Caribbean countries staff a third advisor's position.

The primary responsibility of the Executive Director's Office is to represent the interests of Canada and the other members of the constituency at the Fund's Executive Board. The office participates in the Board's discussions on a wide variety of policy, operational and administrative matters, including surveillance issues and country assistance requests and reviews.

Members of the Executive Director's Office

Executive Director	Ian E. Bennett (Canada)
Alternate Executive Director	Nicolas O'Murchu (Ireland)
Advisor	Frank Vermaeten (Canada)
Advisor	Denny Lewis-Bynoe (Caribbean)
Advisor	Mark Kruger (Canada)
Assistant	Chris Faircloth (Canada)
Assistant	Charleen Adam Gust (Canada)
Administrative Assistant	Monique Chagnon (Canada)
Administrative Assistant	Catherine Byrne (Ireland)
Administrative Assistant	Liz Craib (Canada)
Phone/fax	(202) 623-7778/(202) 623-4712
Address	11-112, 700 – 19th Street N.W., Washington, DC 20431, USA

Canada's Financial Participation

Canada's financial participation in the IMF consists primarily of its quota subscription. Canada's quota is SDR 6,369.2 million, or about 3 per cent of total quotas. Canada's quota subscription is a government asset, which is made available to the Fund partly in Canadian dollars and partly in reserve currencies, such as US dollars or SDRs. These latter non-Canadian dollar amounts continue to be part of Canada's foreign exchange reserves. As an asset, Canada's quota subscription is not recorded as an expenditure item in the budget of the Canadian government.

Only a very small portion of the Canadian dollar part of Canada's subscription is actually held in cash by the IMF. The balance is held by the Bank of Canada in the form of demand notes, which are available to the Fund in the event it needs to draw upon additional resources. Canada earns interest on its quota subscription when the Canadian dollar is used in Fund lending operations, i.e., is drawn by other member countries. In 2002 Canada received SDR 45.4 million on its net creditor position in the IMF. The net income from Canada's net creditor position with the Fund is paid into the Government of Canada's Exchange Fund Account, adding to the foreign exchange reserves.

Table 2
Canada's Financial Position in the IMF

	December 31, 2002	December 31, 2001
	(in SDR millions)	
Quota	6,369.2	6,369.2
Fund holdings of Canadian dollars	3,735.8*	4,090.8*
Reserve position in the Fund	2,633.4**	2,278.4**

* In accordance with Fund regulations, at least 0.25 per cent of Canada's quota is held by the IMF in a Canadian dollar cash deposit at the Bank of Canada. The Fund's remaining Canadian dollar holdings are in the form of non-interest-bearing demand notes, also kept by the Bank of Canada.

**This is the amount Canada is entitled to draw on demand from the IMF for balance of payments purposes. Canada's reserve position in the Fund is the result of the portion of Canada's quota subscription made available to the Fund over time in reserve currencies, the use of the Canadian dollar in Fund financial transactions with other members, and loans to the IMF under borrowing arrangements such as the General Arrangements to Borrow (GAB) and New Arrangements to Borrow (NAB). As the name suggests, Canada's reserve position in the Fund is a part of Canada's official foreign exchange reserves.

At the end of 2002 Canada's holdings of SDRs amounted to SDR 528.8 million, or 67.9 per cent of Canada's cumulative allocation of SDRs. In 2002 Canada held SDRs in an amount below its allocation, and so paid net interest of SDR 6.3 million.[3]

Last year, in line with earlier commitments, Canada made further contributions to the IMF's Poverty Reduction and Growth Facility. The facility provides financial support on concessional terms to low-income countries facing protracted balance of payments problems. Canada's total commitment to the Poverty Reduction and Growth Facility is a loan of SDR 700 million and a grant of approximately SDR 190 million. At the end of 2002 loan payments under these arrangements totalled SDR 608.6 million of the SDR 700 million, and subsidy contributions equaled SDR 176.4 million of the SDR 190 million. In 2002 Canada received SDR 17.3 million in interest earned on loans to the Poverty Reduction and Growth Facility.

Further, Canada is a participant in a financing arrangement established to supplement the Fund's regular resources in the event of financial crises, the NAB, which was not activated in 2002 (see the box on the next page). Canada is also a participant in the GAB, an earlier credit arrangement established by the G-10. Canada's GAB commitment is the equivalent of SDR 892.5 million. This line of credit was not used in 2002.

[3] When a member's holdings of SDRs is greater (lesser) than its cumulative allocation, that member (the Fund) receives interest on the difference.

New Arrangements to Borrow

The following are the main features of the NAB, which came into force in 1998:

- Participating countries will make loans to the IMF when supplementary resources are needed to forestall or cope with an impairment of the international monetary system, or deal with an exceptional situation that poses a threat to the stability of the system.
- Twenty-five countries have agreed to lend up to SDR 34 billion (about C$68 billion) to the Fund in case of financial emergencies.
- Canada's share in the arrangement is 4.1 per cent, in the form of a commitment to provide non-budgetary loans to the IMF from its international reserves.
- The NAB does not replace the GAB, which remains in force. However, the NAB will be the first and principal recourse of the IMF if supplementary resources are needed.

Challenges Ahead

A key challenge for the Fund is to ensure that it meets the needs of an increasingly integrated global economic system. The evolution of the Fund's place in the international financial system must continue to reflect changes in the world economy. In particular, there is a need to assess the role of the Fund in a world of large-scale private capital flows. To meet these challenges:

- The Fund should continue to work to strengthen surveillance to prevent crises, including through improved debt sustainability analysis.
- The Fund needs to continue its efforts to improve its capacity to manage and resolve financial crises. In addition to clarifying the rules for exceptional access to Fund resources, further work with the international community is required to implement an operational framework for improved private sector involvement in crisis management, including through mechanisms to facilitate the more orderly reduction of unsustainable sovereign debts.
- The Fund should work to make IMF quotas more reflective of developments in the world economy and ensure that Fund governance is representative.

WORLD BANK

Membership in the World Bank (the Bank) affords Canada an important voice on key development issues in the world's premier multilateral development institution. With 184 members,[4] and loans and credits outstanding to 143 developing and transition member countries in fiscal year (FY) 2002[5] totalling US$218 billion, the Bank has a far-reaching impact on global development and poverty reduction. It provides policy advice and financial support crucial to improving borrowing members' longer-term development and poverty reduction prospects. It also assists members by providing concessional assistance and improved access to world financial markets for development purposes.

Canada's capital share of about 3 per cent gives it a seat on the Bank's Executive Board and on the Development Committee of the Boards of Governors of the Bank and the IMF. Canada has the opportunity at the Executive Board, in dialogue with Bank staff, and at the annual meetings of the Board of Governors (and the Development Committee) to provide direct input into the formulation of Bank policies and operational decisions. Canada and other shareholders help to guide the Bank in improving developing countries' economic, social and environmental performance. Through its engagement with the Bank, Canada's influence in developing countries can be leveraged beyond what can be achieved through bilateral programs. For example, Canada has played a leading role in the Bank's discussion of the implementation of the heavily indebted poor country debt relief initiative, in shaping the institution's response to post-conflict countries, and in its efforts to assist developing countries combat terrorist financing and money laundering.

Bank membership also provides the Canadian government with access to the institution's research and policy work, which enriches our own understanding of international development. The Canadian International Development Agency (CIDA), for example, is able to draw on Bank analytic and technical expertise in order to gain a more comprehensive understanding of the social and economic policy environments that are conducive to effective aid delivery. CIDA is also able to leverage its own resources with those of the Bank through participation in a growing number of partnerships with, and in global programs led by, the Bank. Finally, Canada's membership allows Canadian companies and individuals substantial procurement opportunities—in 2002 they provided goods and services worth US$130 million under Bank-financed contracts.

[4] East Timor joined the World Bank on July 23, 2002, becoming the institution's 184th member.

[5] The Bank's fiscal year begins on July 1 and ends June 30 the following calendar year.

Overview of Operations in 2002

In FY 2002 the Bank committed loans and credits of US$19.5 billion to 95 developing and transition countries (see Annex 2). The International Bank for Reconstruction and Development (IBRD) committed US$11.5 billion in new loans in FY 2002, or roughly US$1 billion more than in FY 2001. Bank concessional lending through the International Development Association (IDA) increased to US$8 billion in FY 2002, compared to US$6.8 billion in FY 2001.

Geographic and Sectoral Focus of Lending

Reflecting significant adjustment lending to Turkey, new IBRD lending commitments in FY 2002 were highest in Europe and Central Asia. IBRD lending to this region reached US$4.9 billion, or 42 per cent of all IBRD loans in FY 2002. Turkey was the largest IBRD borrower in FY 2002, accounting for US$3.6 billion in commitments. The next largest area of IBRD concentration was the Latin America/Caribbean region, where the institution committed US$4.2 billion, or 37 per cent of its financing. The East Asia/Pacific region accounted for US$1 billion, or 9 per cent, of new IBRD lending. South Asia accounted for US$900 million, or 8.5 per cent of IBRD lending, with India alone accounting for 7.8 per cent. The Middle East/North Africa region accounted for US$450 million, or 4 per cent of IBRD commitments

In FY 2002 Africa accounted for the largest share of IDA lending—although, at 47 per cent, the level fell slightly below the 50-per-cent indicative target of new IDA commitments set by IDA donors. South Asia accounted for 32.5 per cent of IDA commitments in FY 2002. The East Asia/Pacific region and Europe/Central Asia region accounted for 9 per cent and 8 per cent respectively.

The Bank's strong commitment to investing in people is reflected in the sectoral breakdown of both IBRD and IDA lending operations. Support for social sector investments, in particular, remains a high priority. The areas of social protection, social development and rural development accounted for roughly 30 per cent of total World Bank commitments in FY 2002. Recognizing that good governance and strong institutions are key elements of development and poverty reduction, there was a significant increase in FY 2002 in Bank support for public sector governance. Approximately 22 per cent of total Bank commitments and over 30 per cent of IBRD commitments during the year were dedicated to this area. This is up sharply from FY 2001 and the average of the mid-1990s, when the Bank lending shares were 12 per cent and 7.3 per cent respectively. These increased commitments reflect the stronger attention that the Bank is paying to strengthening public expenditure management, financial management, anti-corruption measures and civil service reform.

Non-Lending Operations

In FY 2002 the Bank continued its strong focus on non-lending services in order to enhance the developmental effectiveness of its operations. The Bank provides a wide range of advisory, analytical, training and knowledge-related services in support of building domestic capacities. Through its non-lending activities, the Bank provides valuable policy advice that can bolster the effectiveness of its investment and adjustment lending.

How the World Bank Group Works

The World Bank Group is made up of four complementary but distinct entities: the International Bank for Reconstruction and Development (IBRD), the International Development Association (IDA), the Multilateral Investment Guarantee Agency (MIGA) and the International Finance Corporation (IFC).

The IBRD and IDA (together commonly known as the World Bank) provide funding for investment projects and for adjustment—or economic and sector reform—operations. The IBRD lends on non-concessional terms (charging an interest rate that is slightly above its own borrowing costs) to better-off borrowing members, while IDA provides 35- and 40-year interest-free credits to the poorest borrowers. Since July 2002 IDA also provides grants for certain specific purposes. IDA is the largest source of development finance for the world's poorest countries. The IBRD raises its funds primarily on international markets on the strength of its triple-A credit rating. In effect, the IBRD on-lends to borrowing countries at a rate of interest much lower than that which they could secure on their own borrowings. IDA, on the other hand, receives grant funding from donors, loan repayments and annual allocations from IBRD net income. As of June 2002 outstanding IBRD loans and IDA credits amounted to US$121.6 billion and US$96.4 billion respectively.

The IFC supplements the activities of the IBRD and IDA by undertaking investments on commercial terms in productive private sector enterprises. The IFC provides such services as direct private sector loans, equity investments, resource mobilization and technical assistance. As of June 2002 the total outstanding loans and equity investment of the IFC were equivalent to US$15 billion. MIGA's mandate complements that of the IFC: it promotes private foreign direct investment in developing countries, primarily by providing insurance against non-commercial risk, such as the risk of currency inconvertibility during civil conflict. MIGA's outstanding portfolio as of June 2002 amounted to US$5.3 billion.

Each of the 184 shareholders has a seat on the Board of Governors of the World Bank. Most decisions on policy, operational and administrative issues, however, have been delegated to the 24-member Executive Board. Membership on the Executive Board is evenly split between developed and developing countries.

Strengthening the World Bank's Poverty Reduction Focus

Focusing Operations on the Millennium Development Goals

The recognition that the Millennium Development Goals (MDGs) can be achieved only through empowerment of the poor underpins the Bank's approaches to countries and sectors. The MDGs now form the cornerstone of the Bank's strategic planning and operational priority setting. The Bank is also working closely with the United Nations system and the Organisation for Economic Co-operation and Development in strengthening international monitoring of the progress being made towards achieving the MDGs.

A key task for the Bank in this exercise will be to develop a framework for benchmarking performance among both developing countries and donor agencies. The Bank, together with the IMF and the UN system, is strengthening its country and thematic databases. Publicly available data will be posted on the Development Gateway (www.developmentgateway.org). As national capacity in gathering and assessing statistics is critical to efforts for monitoring progress towards the MDGs, in 2002 the Bank increased its focus on assisting developing countries develop their national statistical capacity.

Millennium Development Goals

At the Millennium Summit in September 2000, world leaders adopted specific development goals that can be monitored. Subsequently, the United Nations published eight Millennium Development Goals in the September 6, 2001, report of the UN Secretary General on the road map towards implementing the UN Millennium Declaration. The eight goals are:

- to halve, between 1990 and 2015, the proportion of people living on less than one US dollar a day; and to halve, between 1990 and 2015, the proportion of people suffering from hunger;
- to ensure that, by 2015, all children can complete primary schooling;
- to eliminate gender disparity in primary and secondary education, preferably by 2005, and at all education levels no later than 2015;
- to reduce by two-thirds, between 1990 and 2015, the mortality rate for children under 5 years old;
- to reduce by three-quarters, between 1990 and 2015, the maternal mortality ratio;
- to have halted and begun to reverse, by 2015, the spread of HIV/AIDS; and to have halted and begun to reverse by 2015 the incidence of malaria and other major diseases;
- to integrate the principles of sustainable development into country policies and programs and to reverse the loss of environmental resources; and to halve, by 2015, the proportion of people without sustainable access to safe drinking water; and
- to develop a global partnership for development including through trade openness and debt relief.

The Bank is also working in partnership with developing countries, other aid agencies and civil society more directly to design and implement initiatives to support developing countries in their efforts to reach specific MDGs. These efforts include “fast-track” initiatives that will target Bank and donor resources on countries demonstrating strong commitment to improving social sector programs. Fast-track initiatives, originally pioneered for the education sector, are now being extended to health, nutrition and population.

Continued Global Uncertainty

Financial uncertainty and weak investor confidence have contributed to slower economic growth throughout much of the developing world. Economic growth in many developing country economies remained modest in 2002, falling slightly to 2.8 per cent from an average GDP growth rate of 2.9 per cent in 2001.

Economic results, however, varied by region. Despite rising commodity prices, economic growth in Sub-Saharan Africa will remain constrained by drought, civil war and the spreading HIV/AIDS epidemic. While there are prospects for a modest recovery in South Asia, the main challenges for India and Pakistan in ensuring longer-term growth will be fiscal consolidation and trade liberalization.

Much stronger economic growth in East Asia and Eastern Europe in 2002 coincided with very weak performance in Turkey and Latin America, particularly in Argentina. Indeed, reacting to growing economic and financial instability in Latin America posed a particular challenge for the Bank in FY 2002 and likely will continue to be a major focus of Bank operations in the near future. The Bank committed US$735 million to Argentina in FY 2002. However, under the Bank’s adjustment lending guidelines, with Argentina off track on its IMF program throughout much of 2002, the Bank was unable to provide new adjustment lending. All lending was temporarily suspended in December 2002, when arrears on Argentinian repayments to the Bank exceeded 60 days. The clearing of arrears by the Argentinian government permitted a resumption of lending in January 2003.

In August, with the Uruguayan economy feeling strong ripple effects from the Argentine financial crisis, the Bank worked closely with the international community to assemble an assistance package. On August 8, 2002, the Bank’s Executive Board approved a package that will see Bank financing to Uruguay increased to US$550 million over the next two years.

The Bank is also working closely with the new Brazilian government to help it address financial market volatility and to support its reform agenda. Bank President James Wolfensohn has suggested that, through to December 2003, the Bank could provide up to US$2 billion in financing beyond the lending level established in the current Brazil Country Assistance Strategy.

As mentioned above, in FY 2002 the Bank also provided substantial financing to Turkey to assist that country during a period of financial difficulty. Turkey, Argentina and Brazil together represent roughly 18 per cent of the IBRD’s outstanding loan portfolio. The recent deterioration in their creditworthiness has led to an increase in provisioning that could reduce future IBRD net income.

Stronger Focus on Country Ownership

The Bank continues to assimilate into its operations the principles of country ownership that underpin the Comprehensive Development Framework (CDF).[6] Under the broad CDF approach, "homegrown" Poverty Reduction Strategy Papers (PRSPs)[7] are being developed by an increasing number of poor countries as the driver of their national development plans and poverty reduction policies. Increasingly, PRSPs are also driving operations of the Bank and Fund in the poorest countries.

PRSPs are a continuous and evolving process and many developing country governments have relied on extensive Bank support in this initial stage of design and implementation. A new multi-donor US$20-million PRSP Trust Fund, coordinated by the Bank and the United Nations, was established in 2002 to support capacity building in low-income countries implementing poverty reduction strategies.

In early 2002 the World Bank and IMF undertook a comprehensive review of the PRSP process. The results of this review were presented at the April 2002 meetings of the International Monetary and Financial Committee and the Development Committee and an updated progress report was presented to Governors in the fall of 2002. Results show that PRSPs are becoming a valuable tool enhancing development outcomes. However, it is also clear that more attention needs to be paid to implementation challenges and to addressing bottlenecks in the process. These challenges include enhancing stakeholder participation, improving the link between PRSPs and national policy-making processes and improving the coordination and harmonization of donor support.

Adjustment Lending

One of the consequences of the shift in Bank operations to support country-owned development and poverty reduction strategies has been a high level of adjustment lending in overall Bank financing. Adjustment loans are used to support sector-wide reforms and restructuring. Since the early 1990s the share of adjustment lending in overall Bank lending has consistently been above the 25-per-cent notional level established by the Executive Board. In years when the Bank has been active in supporting major borrowers that are experiencing severe financial difficulties, adjustment lending is especially high. Adjustment operations accounted for 50 per cent of overall World Bank lending in FY 2002, compared to 33 per cent in FY 2001.

[6] The CDF aims to better balance the social, environmental and governance aspects of development with financial and structural considerations. Under the CDF, the Bank and other development players will take a longer-term view of development and work in closer partnership with developing countries, civil society and the private sector in supporting country-led development programs. The CDF also recognizes the need for developing country ownership of their development agendas, a strong focus on development results and the need for greater coordination and partnership among all development actors.

[7] PRSPs were originally conceived as a comprehensive policy mechanism to link heavily indebted poor country debt relief more closely with poverty reduction initiatives. They are rapidly evolving into the primary statement of the development strategy of the world's poorest countries.

Poverty Reduction Support Credits (PRSCs), introduced in May 2001, represent a new type of adjustment operation that provides budgetary financing in support of the implementation of PRSPs. PRSCs ease administrative burdens on borrowers and encourage harmonization of donor practices. PRSCs are used in cases where clients have transparent budgetary and fiduciary processes and strong PRSPs in place. PRSCs have been approved for Burkina Faso, Uganda, Vietnam and Albania.

Adjustment lending is also often used to provide support to middle-income and emerging market economies that are experiencing acute financial problems. In FY 2002 Turkey, Brazil, Colombia and Argentina were recipients of significant commitments of adjustment lending. In sectoral terms, most of the Bank's adjustment lending supports public sector management, financial sector reforms and improved governance. Adjustment lending has been much higher in the case of the IBRD than of IDA. In FY 2002, 65 per cent of IBRD commitments were in the form of adjustment loans, compared to 25 per cent for IDA.

Monitoring and Evaluation

The Bank's independent Operations Evaluation Department (OED) has concluded that the institution's system of project monitoring could be improved. OED judged that many of the problems stem from both limited borrower capacity and a lack of incentives and guidelines for Bank staff. At the International Conference on Financing for Development held in Monterrey, Mexico, in March 2002 and again at the two Development Committee meetings in 2002, Ministers highlighted the importance of an enhanced focus on results in helping both developing countries and donors design and implement poverty reduction strategies. In response, Bank management has embarked on a process of developing a more comprehensive approach to measuring and monitoring development results. The Bank's approach is focused both on tying its own performance benchmarks more closely with the development priorities of individual PRSPs and on increasing Bank support for statistical capacity within developing countries. By the end of 2002 the Bank had launched five Country Assistance Strategy (CAS) pilots (in Brazil, Cambodia, Cameroon, Sri Lanka and Ukraine) and is working in nearly 40 other client countries to develop and test a results-based CAS design. Management is aiming to adopt this approach in all borrowing countries starting in July 2003.

Assessing Poverty

To ensure that poverty reduction remains at the heart of the Bank's operations, the Poverty Reduction and Economic Management Network (PREM) was established in 1997. PREM undertakes country-specific poverty assessments and advises Bank country teams on the poverty reduction impacts of emerging policies, programs and individual projects. PREM has concluded country poverty assessments that cover a large majority of the world's poor. The quality of poverty data, however, is uneven, and PREM continues to work to improve the consistency of its assessments.

The World Bank's Response to the HIV/AIDS Pandemic

HIV/AIDS is no longer just a public health issue; it is a development crisis. Of the approximately 40 million people around the globe who are living with HIV/AIDS, 95 per cent are in developing countries. The high infection rates in developing countries are killing or incapacitating many of the most productive individuals and threaten economic and social stability. One third of those infected in developing countries are in the 15–24 age bracket. AIDS is now the leading cause of death in Sub-Saharan Africa and among males in the Caribbean. In the hardest-hit countries, HIV/AIDS threatens to reverse the development gains achieved over the past 30 years.

Most of the Bank's HIV/AIDS programming is delivered through IDA, which has mainstreamed HIV/AIDS into its work. Since September 2000 IDA's Multi-Country HIV/AIDS Program (MAP) for Africa has made US$500 million available to governments to combat HIV/AIDS. While IDA initially expected it would take three years to commit the MAP funding, high demand led to the commitment of virtually all of the MAP facility within 15 months. Another 15 projects are being funded through a second US$500-million MAP loan (MAP2), which was approved in February 2002. In addition to MAP2 funding, in FY 2002 Bank support for HIV/AIDS operations in Africa amounted to over US$300 million, and an additional US$155 million was committed for projects in the Caribbean region. The Bank is heavily involved in international efforts to combat the disease. The Bank is one of eight co-sponsors of UNAIDS (which spearheads the UN's response to the crisis). The Bank is also fostering private-public partnerships designed to accelerate the development of an HIV/AIDS vaccine for use in developing countries. The Bank is an active partner in the Global Fund to Fight AIDS, Tuberculosis, and Malaria that was launched at the G-8 Summit in Genoa. The Bank, along with UNAIDS and the World Health Organization, hold ex-officio (non-voting) seats on the Board of the Global Fund. The Bank is also the Trustee of the Global Fund, with responsibility for the collection, investment and management of funds, disbursement of funds to countries and programs, and financial reporting.

During negotiations for the 13th replenishment of IDA (IDA13), IDA donors agreed that all IDA financing for HIV/AIDS projects in the poorest IDA countries (those that do not also have access to IBRD financing) will be provided on a grants basis. For richer IDA countries, donors agreed that 25 per cent of IDA financing for HIV/AIDS projects will be provided on a grants basis.

The IDA13 Replenishment—Enhancing Support for Country Ownership

In July 2002, 39 donor governments concluded negotiations on the 13th replenishment of the International Development Association (IDA13). Their report was endorsed by Bank Governors at the institution's annual meeting in September 2002. The IDA13 period runs from July 2002 to June 2005. The IDA Deputies' Report, which serves as the IDA13 policy framework, is available on the Bank's Web site.

Donors agreed to a total IDA13 replenishment of SDR 18 billion (roughly equivalent to US$23 billion). Donors will provide about 60 per cent of this amount. The remainder will be funded from repayment flows on outstanding IDA loans and net income transfers from the IBRD. Canada agreed to maintain its 3.75 per cent donor share during the IDA13 period, which equates to C$690.4 million. This amount will be paid in three equal annual installments over the 2003–2005 period. This contribution makes Canada the seventh largest IDA donor.

In terms of operational priorities, IDA donors and Bank management agreed that IDA will link its operations more closely to country-owned poverty reduction strategies. Within the framework of support for PRSPs, donors have stressed the need for IDA to invest in people, especially through education, health and basic infrastructure, and by strengthening public sector management. They reiterated the IDA12 objective of having Africa account for half of IDA allocations.

Donors also agreed to a key innovation in IDA financing. During the IDA13 period, IDA for the first time will be able to provide substantial grants, as opposed to interest-free loans, for certain specific purposes. After a series of difficult negotiations, in which Canada played a strong mediating role, donors agreed that IDA could provide grants in the range of 18–21 per cent of total IDA13 financing. Within the overall grants level of 18–21 per cent of IDA13 financing, donors have suggested that grants be directed at:

1. support for post-conflict countries (up to 100 per cent grants for this type of operation);
2. support for reconstruction following natural disasters (up to 100 per cent grants for this type of operation);
3. support for HIV/AIDS programs in all IDA countries (up to 100 per cent grants for the poorest, IDA-only clients and up to 25 per cent grants for richer, IDA-blend clients);[8]

[8] IDA borrowers are divided into two categories: "IDA only" and "IDA blend." The latter are generally characterized by higher per capita incomes and are usually considered creditworthy for non-concessional IBRD loans as well as concessional IDA financing. IDA-only countries are the poorest borrowers and they are not considered creditworthy for IBRD non-concessional lending.

4. support for IDA clients with per capita incomes under US$360 that are vulnerable to longer-term debt sustainability problems (up to 40 per cent grants for operations in these countries); and
5. support for other IDA clients with per capita incomes under US$360 (up to 23 per cent grants for operations in these countries).

Donors will review the experience with grants at the IDA13 mid-term review that will be held in late 2003.

At the insistence of IDA donors, management has agreed to focus more heavily on measuring the development results of IDA operations. During the IDA13 period, management will develop specific outcome-based benchmarks for assessing the effectiveness of IDA assistance.

IDA donors also urged IDA to be more selective in its operations and to work closely with other development partners, on the basis of comparative advantage. They reaffirmed the importance of IDA's performance-based allocation mechanism, and especially the high weight it assigns governance. They also requested that management assess the impact of this allocation mechanism on poverty levels. At the same time, they recommended that IDA show greater flexibility with respect to allocations to post-conflict countries where there has been little opportunity to establish policy track records.

IDA—Focused on the World's Poorest

Established in 1960, IDA is the single most important source of external development support for the world's poorest countries. IDA provides some US$8 billion annually in highly concessional long-term financing to 79 countries, home to 2.4 billion people, of whom 80 per cent live on less than US$2 a day and 40 per cent survive on less than US$1 a day. From July 2002 IDA was also able to provide a significant portion of its financing to the poorest IDA-eligible countries on a grants basis.

Eligibility for IDA concessional lending is based primarily on an assessment of an individual country's per capita income. In FY 2002 the operational cut-off for IDA eligibility was US$884 per capita. A number of small island states with per capita incomes above this threshold are also eligible for IDA concessional financing given their limited capacity and high vulnerability to external shocks.

IDA helps provide access to improved social services such as schools, hospitals and clinics, and clean water and sanitation services. IDA also supports investments aimed at improving productivity and creating employment.

To ensure that its resources are used effectively, IDA allocations to clients are governed by performance criteria that are heavily focused on good governance.

Canada's Financial Participation in the IBRD and IDA

IBRD

Canada is a fully paid shareholder of the IBRD, with a capital share of 2.85 per cent and voting share of 2.79 per cent. A relatively small proportion of this capital is required to be "paid-in"—about 6 per cent overall, but just 3 per cent in the last capital subscription. The remainder is "callable" in the unlikely event that the IBRD needs it from member countries. Callable capital represents a contingent liability for shareholders. The IBRD leverages paid-in capital to raise financing in international capital markets for its lending program. The IBRD's capital adequacy is regularly reviewed and the institution's capital is replenished through occasional general capital increases. The last general capital increase was in 1988.

Canada's Total IBRD Subscriptions and Contributions Committed

(in millions of US dollars)	Of which paid-in	Of which callable
5,403.8	334.9	5,068.9

IDA

As IDA concessional financing does not generate a financial return, its operations are underwritten entirely from donor contributions, loan fees and repayments of principal on its outstanding loans, as well as allocations from IBRD net income. To meet Canada's $690.4-million obligation under IDA13, the Government will issue demand notes in fiscal years 2002–03, 2003–04 and 2004–05, each valued at $230.133 million. The note for 2002–03 was fully encashed on February 28, 2003. The remaining notes will be encashed in the years that they are issued.

Canada's Contribution to IDA13 (July 2002–June 2005)	Canada's IDA13 Donor share	Canada's IDA13 Voting Share
(in millions of Canadian dollars)	(per cent)	(per cent)
690.4	3.75	2.46

Canada's Priorities at the World Bank

Canada's positions are based on our international development goals and foreign policy priorities and our strong interest in maintaining the financial integrity of the World Bank and its operations.

Poverty Reduction and Human Development

Canada has long been a key player in international efforts to assist the poorest and strongly supports poverty reduction as the overarching objective of the World Bank. As such, Canada endorses the Poverty Reduction Strategy Paper process, under which developing country governments develop and implement broad-based poverty reduction strategies in partnership with the donor community. The Bank has increasingly recognized that poverty reduction cannot be addressed in isolation. Private sector development, good governance, strengthening public expenditure management and the monitoring of non-productive expenditures (especially military), external debt and environmental sustainability are just a few of the factors that need to be considered in designing strategies to help improve the living standards of the poor. In the case of small states, the Bank has to take into account additional factors of economic and physical vulnerability and limited capacity.

Canada strongly supports the Bank's efforts to increase the prominence of social sector issues in macroeconomic stabilization programs. Good macroeconomic policy is key to boosting growth and reducing poverty. At the same time, adequate attention to social issues must be an essential part of macroeconomic stabilization and sustainable development goals.

Seventy-five per cent of the world's poor live in rural areas and, in October 2002, the Executive Board endorsed the Bank's new rural development strategy. The strategy was drafted following consultations held over a two-year period with governments, NGOs, academics and the private sector. The strategy reconfirms that agriculture is the main source of overall economic growth and poverty reduction in many poor countries. The strategy envisages 20-per-cent annual increases in Bank financing for the agricultural sector over the next two years.

The rural strategy, however, also recognizes the importance of the non-farm rural economy. Through its interventions, the Bank aims to improve infrastructure and financial and social services for the rural poor. Under the rubric of its rural strategy, the Bank will promote a Global Forum for Rural Development that will include major donor agencies. The Forum will serve as a focal point for awareness building, advocacy, analytical and policy work on rural subjects, coordination of assistance and co-financing.

The Bank's rural development strategy, entitled *Reaching the Rural Poor*, is available on the Bank's Web site at www.worldbank.org.

Canada's Voting Record

World Bank Executive Board decisions are traditionally taken on a consensus basis, without resorting to a formal vote. On occasion, however, individual Executive Directors have been unable to join the Board consensus. On June 18, 2002, the Canadian Executive Director abstained on a proposed IFC investment in Usha Beltron in India, given concerns about oversupply in the global steel market. On July 26, 2002, the Honourable John Manley, as Governor representing Canada on the World Bank Board of Governors, opposed the proposal to provide World Bank Executive Directors with a 3.8-per-cent increase in remuneration, since it was significantly higher than the 2.5-per-cent increase approved for the World Bank President.

Education

Canada considers education to be a critical factor in development and strongly supports recent efforts by the Bank to increase support to this sector. Commitments to education in FY 2002 amounted to US$1.4 billion, up from US$1.1 billion in FY 2001 and roughly double the US$730 million committed in FY 2000. The Bank also provides important non-lending support for education through its analytic and policy advisory work. The Bank has also focused heavily on girls' education. Guinea provides a good example of the progress that can be made. With the support of Bank financing, Guinea has been able to expand girls' enrolment in primary school by 12 per cent annually since 1991. This was achieved despite a very weak macroeconomic environment.

Canada has worked in collaboration with the Bank and other agencies in support of the Education for All (EFA) Initiative.[9] The Minister of Finance reinforced Canada's support for EFA in statements to the World Bank-IMF Development Committee and during G-7 Finance Ministers' meetings.

Canada strongly supports the Bank's efforts to develop a "fast-track" initiative to assist countries with good education strategies. The fast-track initiative was developed by the Bank, in close cooperation with the G-8 Education Task Force,[10] and it was endorsed by Development Committee members in April 2002. In June 2002 the Bank listed 18 countries as potential candidates for fast-track donor support, of which 10–12 candidates are expected to be

[9] At Dakar, Senegal, in April 2000, education and development ministers from across the globe established the six education goals: gender equality in primary and secondary schooling by 2005 and gender equality in all education by 2015; universal primary education of good quality by 2015; a 50-per-cent improvement in adult literacy by 2015; an expansion of early childhood care and education; equitable access by youth and young adults to appropriate learning and life skills programs; and improved education quality.

[10] A task force of senior officials established by G-8 leaders at the 2001 Genoa Summit to review means of improving international support for the Millennium Development Goals for education.

ready for support in early 2003. For its part, Canada will be increasing its support for education programs, including their emphasis on gender parity, in Tanzania and Mozambique. Canada will contribute $10 million annually to each country for the next five years over and above current commitments.

Development Effectiveness

Ensuring the effectiveness of the Bank's operations has long been a key Canadian objective. This entails more than just reducing costs and saving money. Effectiveness requires selectivity, clear priority setting and efficient service delivery. The Bank needs to operate in those areas where its assistance can be productively used and where it has a clear comparative advantage. The Bank is exercising greater selectivity by focusing on reforming states and good performers. In the case of IDA credits, allocations are based on performance criteria. In order to monitor country performances in a meaningful manner, the Bank is focusing on incorporating poverty-related outcome indicators to measure real results, including such indicators as child malnutrition and child and maternal mortality.

The Bank continues to strengthen its efforts to improve development effectiveness through a renewed emphasis on the quality of its project portfolio. More vigilance is now exercised at the project preparation and supervision stages, and this has led to an improvement in the number of projects that are meeting their development objectives. For FY 2002 the Operations Evaluation Department (OED) estimated that 80 per cent of Bank projects had satisfactory ratings in terms of meeting their development objectives. This represents a steady increase since 1997, when only 73 per cent of projects were rated satisfactory. Recent OED evaluations point to a particular improvement in the performance of projects in Africa, following a determined effort by Bank management to improve project management.

Coordination and harmonization of programs is another critical element of effective development assistance. Canada has consistently urged the Bank to forge stronger partnerships with other multilateral organizations—including the United Nations—and bilateral donors on the basis of comparative advantage.

Gender Issues

Canada actively promotes gender issues as a priority for World Bank operations. World Bank lending in almost all sectors includes activities that specifically benefit women and girls. Following a review of its gender strategy, management committed to integrate gender issues into Bank Country Assistance Strategies and to work with developing countries and external partners to identify appropriate strategies to promote gender equality. In 2001 the Bank published a major policy research report, *Engendering Development—Through Gender Equality in Rights, Resources, and Voice*. The report, which informs the Bank's gender strategy, concluded that there is strong empirical evidence that gender inequalities tend to slow development, while gender equality helps to lower infant mortality, improve nutrition, and lower fertility and HIV/AIDS transmission rates. CIDA is currently working closely with the Bank to improve the Bank's capacity in gender equity issues. To expand the exchange of knowledge with its development partners, the Bank provides a number of statistical indicators on gender on its Web site.

Private Sector Development

The private sector plays an important role in virtually all development challenges, from protecting the environment to assisting in privatization in transition economies. Canada has maintained that the Bank Group's fundamental priority for private sector development is to create an enabling environment for investment and sound regulatory frameworks for the private sector to develop in a sustainable fashion. In 2001 the Bank Group began consultations with governments, the private sector, NGOs and multilateral agencies on a private sector development strategy. Based on this consultative process, the Bank Group's Private Sector Development Strategy was formally endorsed by Executive Directors in February 2002. The strategy relates to two broad themes: extending the reach of markets and improving the delivery of basic services. The key elements of the strategy include fostering a sound investment climate; providing direct support for private firms; supporting private participation in infrastructure; increasing the role of the private sector in assisting public sector efforts to achieve universal and affordable access to social services; and creating a new approach to more effectively target subsidies to the poor to improve service delivery. Canada has encouraged this increasingly coordinated approach to private sector development.

In FY 2002 the IBRD and IDA together committed US$330 million in lending in direct support of private sector development. An important example of the private sector's role in development is the growing impact of microcredit operations (relatively small loans made to the poor by grassroots organizations such as the Grameen Bank in Bangladesh). With a small investment, these organizations have been successful in improving the living conditions of the poor—particularly women—in developing countries. Evidence from these operations is compelling; it shows that the poor can be very good entrepreneurs as well as very good credit risks.

The Consultative Group to Assist the Poorest (CGAP), which includes the Bank, Canada, 25 other multilateral and bilateral donors and two private organizations, was established in 1995 to support the development and expansion of sustainable institutions that provide microfinancing services to the poor. In September 2002, CGAP members renewed the Group's mandate for a third term (from 2003 to 2008).

Microcredit: The Consultative Group to Assist the Poorest

Microcredit is an important development instrument in the world's poorest countries. In FY 2002 CGAP committed US$7.8 million to expand microcredit operations in the world's poorest countries. Canada strongly supports CGAP efforts to expand microcredit, which is now moving into its third phase.

CGAP's third phase will centre on the following four strategic priorities:

- fostering a diversity of financial institutions that serve the poor;
- facilitating the poor's access to a wide range of flexible, convenient financial services;
- improving the availability and quality of information on the performance of microfinance institutions; and
- promoting a sound policy and legal framework for microfinance.

CGAP will work in each of these four strategic areas by providing technical assistance, developing and setting standards, advancing knowledge and information sharing, and offering training and capacity-building services together with other actors.

More information on CGAP is available on the Web at www.cgap.org.

Good Governance and Anti-Corruption

Canada is an advocate of strong Bank support for improved public and corporate sector governance. Over the past decade governance has been mainstreamed into the Bank's adjustment and investment lending, and more recently into its country analytical work. Stress on governance is reflected in the Bank lending numbers for FY 2002. Support for rule of law and public sector reform and institution strengthening accounted for 27 per cent of Bank operations, compared to an annual average of 15 per cent in the mid-1990s.

The Bank's governance strategy, *Reforming Public Institutions and Strengthening Governance*, stresses the need for the Bank to strengthen its tools for evaluating the quality of a country's institutions and for assessing a country's readiness to initiate specific governance reforms. The Bank's Public Expenditure Reviews (PERs) and Financial Accountability Assessments (FAAs) in individual countries will focus increasingly on institutions responsible for budget decision making and implementation, while the more recently introduced Institutional and Governance Reviews will facilitate institutional analysis in other areas of public sector reform. In FY 2002 the Bank conducted 24 PERs and 20 FAAs.

Since 1997 anti-corruption activities have been integral components of the Bank's public sector management portfolio. The Bank has helped put in place more than 600 anti-corruption programs in nearly 100 borrowing countries and has mainstreamed anti-corruption issues into its Country Assistance Strategies. The Bank has amended its procurement guidelines to strengthen the procedures for disqualifying bidders, temporarily or permanently, from future Bank-financed projects if it finds evidence of fraud or corruption. Since the inception of its anti-corruption policy, the Bank has debarred 74 firms or individuals from receiving Bank contracts because of their involvement in corruption or the misuse of Bank funds. Two companies or individuals were debarred in FY 2002.

In its efforts to promote better governance practices, the World Bank Institute has established close working relations with the Parliamentary Centre in Canada and with international organizations.

The Toronto Centre

Recognizing the need to strengthen financial sector regulation and supervision in crisis economies, in 1997 the Government of Canada and the World Bank established the Toronto International Leadership Centre for Financial Sector Supervision. The Toronto Centre provides experience-based training for senior financial supervisors and regulators in emerging markets, putting them in a stronger position to fulfill their responsibilities and thereby reducing the severity and frequency of financial crises. It focuses on the leadership dimension of the supervisory function, offering pragmatic programs based on the premise that experience is the best teacher. The Toronto Centre has trained nearly 600 senior public servants from more than 110 countries. In 2000 it began joint programs with the Financial Stability Institute in Basle, Switzerland, and initiated regionally focused programs in regional settings.

The Bank has provided US$1.25 million in funding to the Toronto Centre over the past three years. The IMF has contributed US$1.1 million since 2000. The Bank for International Settlements announced a contribution of US$500,000 over 2000 and 2002. Canadian funding for the Toronto Centre has been provided by CIDA and several Canadian banks (Canadian Imperial Bank of Commerce, The Bank of Nova Scotia, Royal Bank of Canada and TD Bank Financial Group).

The Toronto Centre can be reached through its Web site at www.torontocentre.org.

Environmentally Sustainable Development

The Canadian government, alongside Canadian NGOs, has long been a vocal advocate of the need for the Bank to better integrate environmental considerations into its operations. The Bank has estimated the economic costs of environmental degradation in many developing countries to be, on average, in the range of 4 to 8 per cent of GDP. Under its environmental strategy, the Bank is moving to improve its environmental safeguard system and to mainstream environmental policies and issues into its loan and policy dialogue work. The Bank also works closely with clients to help them introduce and implement their own environmental safeguard systems to help them manage their resources more sustainably.

While the Bank is mainstreaming environmental considerations into the broad range of its operations, the number of direct environmental investments it supports varies from year to year. In FY 2002 the share of direct environmental lending in overall Bank lending operations decreased to 2 per cent from 4 per cent in FY 2001.

The Bank has been particularly active in the area of climate change. As an implementing agency of the Montreal Protocol's Multilateral Fund, the Bank supports projects in 18 countries and has committed US$479 million in financing since 1991 for some 785 projects to assist enterprises in developing countries convert to ozone-friendly technologies.

Together with the United Nations Development Programme and United Nations Environment Programme, the Bank is an implementing agency of the Global Environment Facility (GEF). Through the GEF, the Bank supports projects in four key areas: climate change, biodiversity conservation, phase-out of ozone-depleting substances and protection of international waters. Negotiations among 32 donor governments, including Canada, on the third replenishment of the GEF concluded in August 2002 with the agreement endorsed by the World Bank Board in December 2002. Donors agreed to the highest replenishment ever by pledging US$2.92 billion over the 2002–06 period. Canada agreed to maintain its 4.28-per-cent share of the replenishment, which translates into C$158.94 million over four years. This represents a substantial increase from our GEF-2 contribution of C$122 million. Donors also agreed to stronger monitoring of the development and environmental impacts of GEF operations.

US$100-million BioCarbon Fund

In November 2002 the Bank launched the US$100-million BioCarbon Fund—a private/public partnership aimed at providing financing to reduce greenhouse gas emissions. The Fund will help farmers and rural communities in developing countries earn income from their agricultural lands and forests from sequestering or conserving carbon through agro-forestry and planting legume trees to improve soil fertility and conservation tillage. Fourteen companies and governments have indicated their interest in supporting investments in biocarbon sinks and have signed a memorandum of understanding with the BioCarbon Fund. The signatories range from power utilities to insurance companies and include Suncor Energy Inc. Participants in the Fund are interested in obtaining emission reduction credits that they may be able to use to meet regulatory requirements or voluntary commitments to reduce greenhouse gas emissions.

The BioCarbon Fund will complement two other Bank-managed carbon funds—the Prototype Carbon Fund and the Community Development Carbon Fund.

The World Bank, as the world's largest single lender for sustainable development projects, worked closely with the organizers of the World Summit on Sustainable Development (WSSD) held in Johannesburg, South Africa, in August and September 2002. At WSSD the Bank launched the 2003 *World Development Report*, which focused on sustainable development issues and launched six specific initiatives: the Global Village Energy Partnership, the Community Development Carbon Fund, the Amazon Rainforest Programme, the Agricultural Science Assessment Programme, the Gas Flaring Initiative and a Poverty and Environment Publication. At President James Wolfensohn's request, following WSSD, Bank management established a senior task force to assess outcomes of the Summit and to identify actions for the Bank.

In October 2002 the Executive Board approved a revised Forestry Strategy for the World Bank aimed at improving both the quality of forest environmental protection and the livelihoods of some 500 million people living in extreme poverty who depend on forests. The strategy was modified following an Operations Evaluation Department review which determined that the two central objectives of the Bank's previous forest strategy—slowing deforestation and increasing forest cove—were not being achieved. Revisions to the strategy were drafted after a four-year consultative process involving governments, NGOs, the private sector and other relevant stakeholders. The strategy replaces the previous blanket prohibition on financing logging in primary moist tropical forests with targeted prohibitions on financing logging in critical forest areas. It also replaces the previous list of preconditions for Bank support for forest investment, which could rarely be met by either developed or developing countries, with an analytical approach to identify the status of national forest policy and practices and the means of bringing about lasting improvements in forest conservation and development outcomes.

World Development Report 2003: Focus on Sustainable Development

In August 2002, on the eve of the World Summit on Sustainable Development that convened in Johannesburg, the World Bank released its *World Development Report* (WDR) for 2003. The WDR focused on sustainable development and argued that new alliances are needed at the local, national and global levels to better address environmental issues. The WDR stressed that if low-income countries are to achieve the Millennium Development Goals, they will need to grow at a rate of 3.6 per cent on average in a sustainable manner.

The WDR emphasized the importance of governance to sustainable development. Misguided policies and weak governance in the past have contributed to environmental disaster, income inequality and social upheavals. It stressed the need for governments in developing countries to become more accountable and transparent and to focus more on ensuring that poor people have access to education, health care and basic services. The WDR also argued that the burden for development must be shared more widely. In particular, it suggested that both reducing trade barriers, including agricultural subsidies, and increasing aid transfers are essential elements for improving the lot of the poorest.

The 2003 WDR is available on-line at www.worldbank.org.

Trade and Development

Canada recognizes that the capacity of small nations, emerging economies and other developing countries to participate effectively in the global trading system is an important component of a comprehensive approach to growth and poverty reduction. Canada has stressed the need to incorporate trade sector capacity building in Bank Country Assistance Strategies and nationally developed Poverty Reduction Strategy Papers.

The objectives of the Bank's work in the trade area cover three distinct but complementary areas:

- at the global level, promotion of change in the world trading system to support development, including activities to promote a pro-development Doha outcome and work with bilateral agencies and NGOs to promote the trade and development agenda;
- at the regional level, promotion of effective cooperation, through both analytical work and active support for cross-cutting issues such as standards and trade liberalization; and
- at the national level, promotion of trade issues in country strategies, including targeted country analysis and technical support.

In July 2002, in a move that highlights the increased importance of trade in the institution's work, management established a Trade Department. The Trade Department provides a single venue for accountability within the Bank for trade-related work, including capacity-building work, global advocacy on trade-related development issues based on research findings, support for trade strategies at the regional and country levels and research on trade issues.

In addition, the Bank is working with five other institutions in the context of the Integrated Framework for Trade-Related Technical Assistance (IF).[11] The IF has evolved into an important vehicle for mainstreaming trade issues into least developed country development strategies in a coordinated fashion, with the World Bank playing the role of lead institution. The Bank's intellectual and financial commitment to this project is critical to the success of the IF in both the short and long term. Canada is a strong supporter of the IF and, in addition to providing policy advice, contributed C$1 million to the IF Trust Fund. Canada is also one of two donor representatives on the IF Working Group and as such is a full partner with the six agencies in setting future directions for the IF.

Transparency and Accountability

Recognizing that transparency and accountability are fundamental to ensuring the longer-term sustainability of the Bank Group's operations and that the "demonstration effect" of the Bank's own policies is important for developing country governments, Canada has been a major proponent of increased openness at the Bank. Canada and other donors have pushed the Bank and borrowing countries to improve consultations with local people—civil society organizations (CSOs) and NGOs—in borrowing countries, not only in the design and implementation of projects but also in the preparation of key policy documents, such as Country Assistance Strategies. The Bank has responded to concerns from shareholders by making public a growing number of documents. Following extensive Bank consultations with governments, civil society, the private sector and the media, the Bank's revised disclosure policy came into effect In January 2002.

Under this new policy, the Bank now discloses to the public:

- documentation outlining key actions supported by a Poverty Reduction Support Credit following loan approval by Executive Directors;
- program documents for other adjustment loans, with the consent of the borrower, following Executive Board approval of the operation;
- a broad range of Operations Evaluation Department reports after they have been released to Executive Directors;

[11] The other participants in the IF are the IMF, International Trade Centre, United Nations Conference on Trade and Development, United Nations Development Programme and World Trade Organization.

- environmental safeguard assessments for all projects before project appraisal begins;
- concluding remarks of the Executive Board chair on Country Assistance Strategies, Transitional Support Strategies and CAS Progress Reports that are themselves disclosed;
- concluding remarks on policy and strategy papers on a case-by-case basis; and
- archived documents after 20 years (or five years for types of documents now routinely disclosed).

Substantial headway was made during the 13th IDA replenishment negotiations in expanding transparency and policy dialogue with borrowers and civil society. For the first time six representatives of IDA borrowers participated in formal discussions of the IDA policy framework. IDA donors also decided to release all of their background policy discussion papers to the public in draft form and took the unprecedented step of seeking public comment on their draft report, which defines the IDA13 policy framework.

Transparency also requires better consultation with those affected by projects that the Bank supports. Under President James Wolfensohn, the Bank was the first multilateral organization to establish an independent panel to consider outside complaints. Any group that may be affected by a Bank-supported project has the right to request that the panel investigate whether the Bank has abided by its policies and procedures. Canada has been one of the major supporters of the work of the Inspection Panel. Since its inception in 1994 the panel has received 27 formal requests for inspections, including 3 in FY 2002, and it has found sufficient grounds to proceed with 24 inspections.

Inspection Panel Requests in 2002

In FY 2002 the Inspection Panel received three new requests for inspection relating to the Bujagali hydropower project in Uganda, the Papua New Guinea governance promotion adjustment loan and the Paraguay reform project for the water and telecommunications sectors. In addition, the Panel itself registered a request for inspection of the Argentina SEGBAV power distribution project. The Panel has conducted two other investigations received in 2001 that relate to the Chad petroleum development and pipeline project and the India coal sector environmental and social mitigation project.

During 2002 the Executive Board considered the Panel's reports on the Bujagali project and the Chad-Cameroon pipeline project. In the case of the former, the Board approved management's recommendations to address the Panel's findings. Management committed to amending the indemnity agreement between Uganda and the Bank to examine alternative sources of power, closely monitoring future electricity demand and costs to consumers, providing environmental assessments of the Nile Basin Initiative and encouraging multi-stakeholder consultations on additional power project elements at the Bujagali site. In the case of the Chad-Cameroon project, management pledged to follow up to ensure compliance with Bank environmental and social impact policies and procedures, to intensify its monitoring and supervision efforts and to strengthen the capacity of governments to ensure that project benefits are channelled towards poverty reduction. During the Board discussion, Canada was successful in ensuring that specific timelines were incorporated into the Bank's action plan for capacity building.

The Bank engages with civil society across a broad range of activities, including providing input for poverty assessments, national environmental action plans and other key Bank analytical tools. Particular emphasis has been placed on expanding partnerships with outside groups as more Bank operations are framed in the context of Poverty Reduction Strategy Papers, which embody participatory approaches at the macro level. CSO and NGO representatives from developing countries are now consulted regularly in the preparation of Bank Country Assistance Strategies. Information on the participation of CSOs and NGOs is now included in Bank project appraisal documents.

The NGO-World Bank Committee, a formal mechanism for policy dialogue established in 1982, has evolved into the World Bank-Civil Society Thematic Forum, which will convene a broader range of CSOs, including representatives from NGOs, trade unions, community organizations, small farmers' groups, religious institutions and women's organizations. An annual report is published on the Bank's relations with civil society, and the Bank maintains a Web site (wbln0018.worldbank.org/essd/essd.nsf/NGOs/home).

Within Canada NGOs have participated in a regular series of government meetings and conferences on such issues as multilateral debt, the environment, IDA and Africa. The Canadian government has benefited greatly from the expertise and advice offered by Canadian NGOs on a broad range of development issues. Through this collaborative process, the views of Canadian NGOs have helped shape Canada's position in Bank project and policy discussions.

The World Bank's Business Plan and Administrative Budget

Recognizing that its corporate planning needs to be more closely aligned with efforts to achieve the Millennium Development Goals, the Bank has moved to a three-year budgetary and corporate-planning cycle. The Bank's administrative budget for FY 2002 was US$1,589.7 million. This represented a 4.6-per-cent real increase over the FY 2001 budget. In June 2002 Executive Directors approved a total administrative budget of US$1,672.6 for FY 2003.

FY 2002 IBRD Financial Results

As a development institution, the IBRD does not maximize profit. Instead, it aims to earn a return on its assets that is sufficient to ensure its financial strength and sustain its development activities on an ongoing basis. The IBRD usually earns a net return on its assets of about 1 per cent per annum. In FY 2002 the IBRD managed to achieve a net return on assets of 1.3 per cent, despite increases in provisions. The IBRD's main financial risk rests with the credit quality of its disbursed loan portfolio. At the end of FY 2002 the IBRD's equity-to-loans ratio, which is a summary measure of the institution's risk-bearing capacity, was 22.9, compared to 21.5 in FY 2001. These levels are considered sustainable.

During FY 2002 Côte d'Ivoire, the Republic of Congo and the Democratic Republic of Congo cleared all of their arrears to the Bank and were restored to accrual status. This, in turn, permits new Bank lending. No countries entered non-accrual status in FY 2002. However, given the increase in the credit risks in 2002 in some major IBRD borrowers, the IBRD has increased its provisioning levels.

The Bank follows very conservative borrowing and hedging policies. In FY 2002 the IBRD raised US$22.05 billion, before swaps, in medium- and long-term debt on international capital markets to fund its operations. This was US$5 billion higher than in FY 2001. The increase in borrowing in FY 2002 was primarily attributable to the replacement of both maturing assets and issues called. All proceeds from new funding are initially invested in the IBRD's liquid asset portfolio until they are required for IBRD operations.

Allocation of FY 2002 Net Income

IBRD net income in FY 2002 was US$1.09 billion,[12] roughly US$400 million higher than in FY 2001. IBRD net income helps to meet other development needs. In addition to providing funding for IDA operations and heavily indebted poor country (HIPC) debt reduction, net income allows the IBRD to respond to unforeseen humanitarian crises and to provide grants, from time to time, for other development causes.

IBRD net income supports development objectives. In July of each year Executive Directors recommend to Governors specific allocations from the previous year's net income. IBRD "allocable" net income, after reserves and interest waivers, was US$1.9 billion in FY 2002. Governors approved allocations from FY 2002 net income of US$300 million to IDA, US$240 million to the HIPC Trust Fund and US$93 million to the Bank's Pension Reserve. The remainder of FY 2002 net income was transferred to the Bank's general reserve.

How to Access Information at the World Bank

The World Bank's Public Information Centres, in Washington and in many of the Bank's regional offices, provide a wide range of Bank documents, including:

- project information documents;
- project appraisal documents (after approval by the Board of Executive Directors);
- country economic and sector work documents and sectoral policy papers;
- the annual report and the *World Development Report*;
- *Monthly Operational Summary* and *International Business Opportunities*;
- environmental data sheets, assessments, analyses and action plans;
- *World Debt Tables* and *Global Development Finance*; and
- Operations Evaluation Department précis.

These materials and a variety of World Bank and World Bank Institute special studies are available through the Bank's InfoShop located at:

1776 G Street N.W.
Washington, DC 20433, USA
Phone: (202) 458-5454
Fax: (202) 522-1500
E-mail address: pic@worldbank.org

Additional up-to-date information is also available on the Internet at www.worldbank.org/html/pic/PIC.html.

12 The World Bank (IBRD) prepares its financial statements in accordance with generally accepted accounting principles and international accounting standards. The Bank's financial statements are reviewed by an external auditor. The IBRD's financial statements and IDA's special-purpose statements for FY 2002 were reviewed by Deloitte Touche Tohmatsu and are included in the World Bank's Annual Report for 2002.

Managing Canada's Interests at the World Bank

Finance Minister John Manley, as Canada's Governor at the World Bank, is responsible for the management of Canada's interests at the Bank. Minister Manley exercises his influence through exchanges of views at the Development Committee and annual meetings of the Board of Governors of the Bank, and through discussions with the President of the Bank. Within the Development Committee, Minister Manley represents the interests of Canada and all other members of the Canada/Ireland/Commonwealth Caribbean constituency.

The Department of Finance consults closely with CIDA and the Department of Foreign Affairs and International Trade (DFAIT) in formulating Canadian policies related to Bank issues. Len Good, the President of CIDA, is Canada's Alternate Governor for the World Bank.

Governors have delegated decision making for a wide variety of day-to-day operational, policy and administrative matters to the Bank's Executive Board. The Executive Board formally approves all loans, credits, projects and World Bank policies, discusses Country Assistance Strategies and provides strategic advice to Bank management as appropriate. Of 24 Executive Directors on the Board, 12 are from developing and transition countries and 12 from developed countries. Marcel Massé, who was elected Executive Director in September 2002 by constituency Governors, replacing Terrie O'Leary, represents Canada and the 12 other members of the constituency. In 2002 the Canadian Executive Director sat on the Executive Board's Personnel Committee, which is charged with oversight of the Bank's staffing policy.

Canada's Office at the World Bank

One of the key roles of the office is to provide advice and assistance to Canadian individuals and businesses on doing business with the Bank. The Executive Director's office helped introduce roughly 1,000 Canadian businesses to such opportunities through seminars and workshops held across the country and by organizing direct contacts in Washington. Beyond its formal work, the office provides a valuable bridge between the Bank and Canadian constituents—individuals, NGOs, federal and provincial agencies, associations, the academic community and parliamentarians, among others.

In addition to the Canadian Executive Director's office, the Canadian Embassy in Washington has established an Office for Liaison with International Financial Institutions that can advise Canadians on how to participate in Bank-financed projects. The office can be reached at (202) 682-7719.

Another point of contact for Canadian businesses is the Bank's Business Web page at www.worldbank.org/opportunities. Canadian firms, organizations and institutions that are interested in pursuing opportunities created by Bank-financed projects should consult the Bank's Web site on a regular basis. Information on CIDA's cooperation with and support for World Bank and World Bank-supported programs can be found at www.worldbank.org/canada.

Organization of the Office

The Executive Director is supported in his daily work by a Caribbean Alternate Executive Director, three senior advisors (two Canadian and one Irish), three advisors (two Canadian and one Caribbean) and three locally hired administrative staff. The office works closely with the Canadian government—particularly with the Department of Finance, CIDA and DFAIT. The Department of Finance coordinates Canada's policy advice and channels it to Canada's Executive Director, and through him to World Bank management.

Structure of the Executive Director's office:

Executive Director	Marcel Massé (Canada)
Alternate Executive Director	Sharon Weber (Caribbean)
Senior Advisor	Grant Cameron (Canada)
Senior Advisor	François Pagé (Canada)
Senior Advisor	Donal Cahalane (Ireland)
Advisor	Stephen Free (Canada)
Advisor	Hieu Tom Bui (Canada)
Advisor	Barrington O'Neil Bryce (Caribbean)
Executive Assistant	Deborah Wooldridge
Program Assistant	Monica Morris
Team Assistant	Danielle Pierre
Phone/fax	(202) 458-0082/(202) 477-4155
Address	MC-12-175, 1818 H Street N.W. Washington, DC 20433, USA mmasse@worldbank.org dwooldridge@worldbank.org

Canadian Procurement at the World Bank

Canadian firms benefit from Canada's World Bank membership by accessing procurement opportunities under World Bank-financed loans. Canadian expertise in the power, environmental, engineering, human resources, health, education, telecommunications, financial and transportation sectors has led to procurement opportunities for Canadian firms for developing country projects around the globe. In FY 2002 Canadian companies provided US$130 million in goods and services under Bank-funded projects with, as in past years, consulting services accounting for approximately half this amount. Canadian companies such as Tecsult International, SNC-Lavalin, CRC SOGEMA, Gowlings Consulting Inc., LEA International, Roche Consulting Inc., Wardrop Engineering, Hydro-Québec International, Econoler, Experco Limitée, Acres International, Wayne Dunn & Associates, SaskPower, SaskTel International, Whyte Reynolds International Inc., Terra Housing Inc, Geomar International and others that have been successful in gaining financing from the World Bank were joined in 2002 by a number of first-time Canadian players. In 2002 Systeq Instruments Canada Inc., Haus International Holding Ltd. and Datek Industrial Technologies won contracts for road construction and gas development and conservation in China.

The Canada Mortgage and Housing Corporation, Canada Post and the Canadian Manufacturers and Exporters, to name but a few, were among the Canadian corporations that increased their level of activities supported by Bank financing. The Université de Sherbrooke, Université du Québec à Montréal, the University of Alberta, the University of Manitoba and York University joined the ranks of organizations collaborating with the Bank. The Canadian Petroleum Institute, with the World Bank Institute, organized a training session in Calgary that involved more than 30 energy sector specialists from developing countries. The Executive Director's office collaborated with several Canadian private sector companies and government agencies to promote business opportunities with the Bank. Through their participation in Canada in several events and conferences such as International Development Days, the Annual Meeting of the Atlantic Geomatic Industry and special events organized by the World Trade Centre in Montréal and Ontario Export, Bank representatives provided information to the Canadian private sector on how to do business with the Bank.

Trust Fund Activities

Consultant trust funds (which, in Canada's case, are financed by CIDA and administered by the Bank) are a significant source of funds for identifying and preparing Bank projects, programs or analytical work focused on poverty reduction. These trust funds are intended to support the participation of Canadian consultants with limited prior involvement in activities funded by the Bank. In FY 2002 the Board of Directors approved a package of reforms for consultant trust funds which simplify and standardize existing eligibility criteria. These reforms have resulted in new standardized consultant trust fund framework agreements for all donors. The changes strengthen the alignment of the consultant trust funds with the Bank's overall strategic development priorities and resource-planning processes. They also improve management and strengthen oversight of the consultant trust funds. The Bank introduced a 5-per-cent fee for its administration of these funds.

CIDA's framework agreement with the Bank, signed in June 1995, governs all of its other trust fund arrangements with the Bank, the World Bank Institute and the Global Environment Facility. These overall trust fund programs include trust funds for persistent organic pollutants (C$20 million), the Prototype Carbon Fund (US$10 million), the Public-Private Infrastructure Advisory Facility (C$500,000) and the Cities Alliance (C$800,000). CIDA has established a separate C$5-million trust fund with the World Bank Institute that enables the organization to engage Canadian expertise in the preparation and delivery of its training programs in countries eligible for Canadian Official Development Assistance. Allocations are made annually to five or six World

Bank Institute programs, based on their compatibility with Canadian development assistance priorities. In FY 2002 CIDA entered into new trust fund arrangements, including the Nile Basin Initiative.

For further information on Canadian consultant trust funds, contact Stéphane Charbonneau, Commercial Counsellor at the Canadian Embassy in Washington (phone [202] 682-7719; fax [202] 682-7789) and François Pagé, Senior Advisor at the Executive Director's office (phone [202] 458-0082; fax [202] 477-4155). Information is also available on the CIDA Web site at www.acdi-cida.gc.ca

International Finance Corporation

The International Finance Corporation (IFC), created in 1956, supplements the activities of the IBRD and IDA by providing financing on commercial terms for productive private sector enterprises that lack access to private capital markets. The institution is the largest multilateral source of loan and equity financing for the private sector in the developing world. The institution provides both loans and equity investments; loans represent 75 per cent of the IFC's disbursed portfolio. Through its co-financing arrangements, it leverages substantial private financing for development purposes. By investing alongside the IFC (as Canadian financial institutions have done since the mid-1990s through their participation in the IFC loan syndication program) investors gain valuable access to potential new customers, attain a high-yielding asset and, given the IFC's good relations with developing country governments, benefit from a degree of implicit political risk coverage.

In FY 2002 the IFC approved investment commitments of US$3.6 billion for 204 projects in the developing world. Of this amount, US$518 million was mobilized through loan syndications. The number of IFC loan syndications in FY 2002 was lower than in 2001, given an uncertain international economic and financial environment and its impact on investor appetite for activities in developing countries. Of the US$3.1 billion of the IFC's own financing, US$1.98 billion was provided in the form of loans, US$335 million in the form of other types of guarantees and risk management products, and US$776 million as equity investments and quasi-equity investments. The IFC earned net income of US$215 million in FY 2002, compared to US$345 million in FY 2001.

While the bulk of the IFC's financing is provided to middle-income countries, the institution is increasingly targeting frontier markets (countries, such as those in Africa, traditionally of little interest to private investors). Canada supports this stronger focus on frontier markets, while recognizing the difficulties posed by higher business costs and financial risks.

In 2002 the IFC implemented a reorganization plan that is geared to moving its operations closer to its clients. Under this plan, the institution will decentralize considerable decision-making authority to regional offices. All IFC regional directors now operate from regional offices.

Canada supports a number of technical assistance programs through the IFC's Technical Assistance Programme, which was instituted in 1988 and manages technical assistance programs funded by bilateral and multilateral donors. At the end of FY 2002 the program comprised 40 trust funds that focused on frontier markets, high-impact sectors and small and medium-sized enterprises. In addition to its consultant trust funds with the IFC, CIDA has also provided funding for the South East Europe Enterprise Facility, the Mekong Project Development Facility, the Private Enterprise Partnership and the Foreign Investment Advisory Service.

Canada maintains a 3.45-per-cent share of IFC capital. It has paid-in US$81.3 million to the IFC's capital stock. Given the risks associated with its financial operations, all of the IFC's authorized capital is paid-in.

Canada's Financial Participation in the IFC

	Subscriptions	Voting Power
Total	(% of total)	(% of total)
US$81.3 million	3.45	3.39

Multilateral Investment Guarantee Agency

The Multilateral Investment Guarantee Agency (MIGA) was created in 1988 to encourage foreign investment in developing countries by providing viable investment insurance against non-commercial risks (e.g., expropriation, transfer restrictions, breach of contract, and war and civil disturbance), thereby improving or creating investment opportunities. MIGA's Canadian clients include Barrick Gold Corporation, Hydro-Québec International and The Bank of Nova Scotia.

In FY 2002 MIGA approved 58 guarantees totalling US$1.4 billion for 38 projects, of which 14 were in IDA-eligible countries. MIGA estimates that its guarantees facilitated US$4.7 billion in foreign direct investment. During FY 2002 MIGA also increased its support for investors from developing countries: it supported 11 projects involving sponsors from the developing world, compared to 8 in FY 2001.

Canada's Financial Participation in MIGA

	Subscriptions	Voting Power
Total	(% of total)	(% of total)
US$56.535 million	3.29	2.90
Of which paid-in $10.732 million		
Of which callable $45.803 million		

Future Challenges

That millions of the world's poorest are unable to share in the benefits of globalization is both an economic and moral issue, and has made development a prominent theme of G-8 meetings and of policy discussions in other multilateral fora (e.g., in the UN system, regional summits and World Trade Organization negotiations). Effective use of scarce resources is central to international discussions of development issues. At the International Conference on Financing for Development in March 2002, developed and developing country leaders agreed that more must be done to channel resources in support of development and that, for their part, developing countries have a responsibility to ensure that these resources are used effectively. Donors, conscious of the uneven results of decades of Official Development Assistance, want to ensure that scarce assistance resources produce quantifiable results. This requires stronger efforts by developing countries to create sound policy and institutional environments. The Bank, as the world's largest provider of development financing, will play a crucial role in providing advisory and financial assistance to countries to help strengthen their economic, social and governance policies.

More effective measurement and monitoring of development results is a critical element of the development effectiveness agenda and Canada will continue to stress the importance of results-based indicators. While the Bank has embarked on a program to improve its results measurement and monitoring, adapting and refining the Bank's results measurement work to different developing country poverty reduction strategies will be a substantial challenge over the medium term.

Recognizing the importance of country-owned development strategies, the major challenge for the future will be to orient the Bank's operations towards those clients which have strong economic and governance frameworks in place and to help convince countries with weak policy frameworks of the need to alter their policies. As the Bank moves increasingly to support nationally owned development strategies, its key challenge will be to work with developing country governments and civil society to ensure that there is sufficient capacity on the ground to develop and implement these strategies. The Bank will also have to work increasingly with other partners, both multilateral and bilateral, on the basis of their comparative institutional strengths, to improve the quality and effectiveness of development assistance within individual countries.

Without careful attention to the unique needs of individual countries, the Bank will be unable to meet its objectives of improving the quality of its operations and strengthening its development impact. Moreover, the effectiveness of the Bank's own operations must be enhanced through closer partnerships with bilateral donors and international organizations. Cooperation with UN agencies, in terms of measuring global and national progress towards the Millennium Development Goals, will be key, given the high operational priority the Bank attaches to helping countries achieve these goals.

Establishing clear development priorities and being more selective in its operations will be critical to future success. Canada will continue to stress the need for the Bank to be much more selective and transparent in its operations.

JOINT ISSUES

Overview

The IMF and the World Bank are important institutions for Canada, each playing a unique role in the international economic and financial system. Nevertheless, there are key areas where the mandates of the two Bretton Woods institutions overlap, or where there is a requirement for close cooperation and coordination of activities. Indeed, at the Halifax Summit in 1995, G-7 leaders asked that efforts be made to increase cooperation and coordination between the IMF and the World Bank. The heads of both institutions have put considerable effort into fulfilling that objective. Two particular examples—the joint preparation of a proposed program of assistance for HIPCs and cooperation in addressing financial sector reform—are examined below.

Both the World Bank and the IMF are actively involved with the United Nations and member governments in following up on the conclusions of the United Nations International Conference on Financing for Development, held in Monterrey, Mexico, in March 2002, and the World Summit on Sustainable Development, held in Johannesburg, South Africa, in August and September 2002.

At Monterrey and Johannesburg, governments committed to stay fully engaged—nationally, regionally and internationally—to ensure proper follow-up and implementation of agreements and commitments reached at the Monterrey conference, and to continue to build bridges among development, finance and trade organizations and their initiatives. As part of this, they called for greater cooperation among existing institutions, based on a clear understanding and respect for their respective mandates and governance structures. Governments called for a follow-up international conference to review the implementation of the consensus, with the modalities of that conference decided on by 2005.

Agreement was also reached to use a series of discussions among the UN and the governing bodies of other major stakeholders—the Bank, Fund and World Trade Organization (WTO)—to help further follow-up efforts. These would include periodic discussions among representatives of the UN and intergovernmental representatives at the Bank, Fund and WTO; discussions at the annual Bank/Fund spring meeting with UN and WTO representatives; and discussions at the High Level Dialogue in the UN General Assembly each fall, to which representatives of stakeholder institutions would be invited.

Strengthening Financial Sectors

Problems in the financial sector, especially the banking system, can disrupt growth and macroeconomic stability and can spill over regionally and internationally, as shown by the emerging market financial crises of the late 1990s. In response to concerns about such problems, the IMF and World Bank are devoting increasing attention to financial sector issues. Discussions in both institutions in the past couple of years have focused on how they can assist member countries to establish and maintain sound financial systems.

The special Financial Sector Liaison Committee, composed of senior staff from the IMF and the World Bank, helps ensure effective collaboration between the two institutions on financial sector issues and enhance operational coordination on work in the financial sector in individual countries.

To help identify and evaluate vulnerabilities in financial systems, and assess observance of core principles, standards and good practices by member countries, the IMF and World Bank introduced the joint Financial Sector Assessment Program (FSAP) on a one-year pilot basis in May 1999. All 12 FSAP pilot missions were completed by April 2000. After a review of the experience with the FSAP pilot, the IMF and World Bank agreed to extend the FSAP and expand the coverage to up to 24 countries per year. By the end of 2002 over half of the IMF's 184 members had either participated in the FSAP or had volunteered to do so in the near future.

Information on financial system standards assessed under the FSAP is used to support Fund surveillance through the Financial System Stability Assessments (FSSAs), which are provided to the Executive Board as background to the Article IV consultation process. The summary assessments of standards contained in FSSAs become the Reports on the Observance of Standards and Codes modules.

The FSSAs include a form of "peer review" in that they are prepared with the participation of outside experts drawn from national supervisory agencies. This represents the operationalization of Canada's financial sector peer review proposal made at the IMF meetings in April 1998.

Canada was the first industrialized country to undergo an FSSA. IMF and World Bank staff and outside specialists from Australia, Brazil, Germany, Sweden and the United States conducted a pilot review of Canada's financial system in October 1999. The results of the peer review were released in the staff report for the 2000 Article IV consultation with Canada. Overall, the assessment found Canada's financial system to be among the soundest in the world (see www.imf.org/external/pubs/cat/longres.cfm?sk=3420.0).

It is important that the Fund continue to help countries with limited resources and administrative capacities implement key codes and standards through the provision of advice and technical assistance. To help this important work, Canada is a founding contributor to the joint IMF/World Bank Financial Sector

Reform and Strengthening Initiative, which was launched in the spring of 2002 and will provide technical assistance to help countries address financial sector weaknesses identified in FSAPs and Reports on the Observance of Standards and Codes.

The international financial institutions' mandate to strengthen financial systems, promote good governance and fight corruption encompasses the enhancement of a country's capacity to combat money laundering and financial abuse. At the Prague IMF/World Bank annual meetings in 2000, the International Monetary and Financial Committee asked the Fund to explore how to incorporate work on financial abuse, particularly with respect to international efforts to fight money laundering, into its activities. As a result, in April 2001 the Fund's Executive Board agreed the IMF would take the following steps to enhance the international efforts to counter money laundering:

- intensify its focus on anti-money laundering elements in all relevant supervisory principles, in particular by developing a methodology for enhancing the assessment of financial standards relevant to countering money laundering;
- work more closely with major international anti-money laundering groups;
- increase the provision of technical assistance in this area;
- include anti-money laundering concerns in its surveillance and other operational activities when relevant to macroeconomic issues; and
- undertake additional studies and publicize the importance of countries acting to protect themselves against money laundering.

In addition, the Fund and Bank recognized the Financial Action Task Force 40 Recommendations as the appropriate international anti-money laundering standards and agreed to adapt those Recommendations that are relevant to their mandates. As indicated in the "Strengthening Financial Sectors" section on page 15, it was agreed following the events of September 11 that the Fund would extend its involvement beyond money laundering to efforts aimed at countering terrorist financing. In this respect, the Fund has added the Financial Action Task Force's 8 Special Recommendations on terrorist financing to the list of standards and codes useful to the operational work of the Fund and has adopted a comprehensive methodology for anti-money laundering and terrorist financing assessments.

Following the recommendation of the Financial Stability Forum, the IMF also agreed to carry out assessments of offshore financial centres (OFCs) to help them identify and reduce vulnerabilities in their financial systems. Since the program was first launched in late 2001, the IMF has completed OFC assessments for 17 jurisdictions. To help provide technical assistance in the Caribbean region, the Fund, in close collaboration with Canada, established the Caribbean Regional Technical Assistance Centre (CARTAC), which became operational in September 2001. Canada is the largest single donor to CARTAC, which is designed to strengthen the region's technical capability in financial sector regulation and supervision, tax administration and other areas.

Multilateral Debt Relief

In September 1996 the IMF and World Bank launched the Heavily Indebted Poor Countries Initiative (HIPC Initiative) to reduce the unsustainable debt burdens of the world's poorest countries. After a review of the HIPC Initiative in 1999, a number of modifications were approved to provide faster, deeper and broader debt relief and to strengthen the links between debt relief, poverty reduction and social policies. Currently 42 countries are being considered for assistance under the HIPC Initiative. Of these, it is likely that 38, including Guyana—a member of Canada's constituency at the Bank—will benefit from the initiative.

Good progress has been made. As of the end of December 2002, 26 countries were benefiting from debt relief under the HIPC Initiative. Six of them (Bolivia, Burkina Faso, Mauritania, Mozambique, Tanzania and Uganda) have completed the HIPC process and received irrevocable debt relief. These countries will receive over US$40 billion in debt relief under the HIPC Initiative and additional measures and they will benefit from an average two-thirds reduction in their debt burdens.

With the relatively stronger HIPC cases making good progress, further progress on the overall initiative will require closer examination of how best to bring the eight conflict-affected HIPC countries[13] into the process. Their special circumstances could merit flexible treatment. However, many countries emerging from conflict have serious governance problems that could undermine assistance efforts; these governance issues will need to be addressed before the international community can engage meaningfully with them.

Maintaining long-term debt sustainability in HIPCs will also be a challenge, given the global economic slowdown. The economic weakness of many HIPCs leaves them vulnerable to exogenous shocks, such as a fall in primary commodity prices, which could alter their debt sustainability prognosis.

[13] Burundi, Central African Republic, Congo (Democratic Republic of), Congo (Republic of), Liberia, Sierra Leone, Somalia and Sudan.

Canada's Actions in Support of the HIPC Initiative

Canada has been at the forefront of international efforts for a swift and decisive approach to the debt burdens of the world's poorest countries, both multilaterally and bilaterally. Multilaterally, Canada has consistently advanced the debt relief agenda by:

- leading efforts in the G-7 for the enhanced HIPC debt initiative (announced in September 1999), as well as continually working to improve the effectiveness of the initiative, as evidenced by Canada's leadership role on the G-7 Leaders Statement on Debt Relief, issued at the Kananaskis Summit in June 2002;
- committing C$75 million in Budget 2003 to further debt relief efforts, bringing our total contribution to the HIPC debt relief trust funds at the IMF (C$65 million) and World Bank (C$250 million) to C$315 million. This will help to ensure timely debt relief for deserving countries;
- calling on all bilateral creditors to follow Canada's lead and to put in place a moratorium on debt payments from reforming HIPCs;
- supporting the provision of additional debt relief ("topping-up" assistance) at the completion point of the HIPC process for those countries negatively affected by, for example, falling commodity prices. Canada has also called for a more generous method of calculating the amount of debt relief that should be offered to countries in need of topping-up assistance; and
- calling for flexibility in linking HIPC debt relief to the Poverty Reduction Strategy Paper process to avoid delaying debt relief to deserving countries.

Bilaterally, Canada is helping the poorest countries by:

- no longer collecting debt payments from 11 reforming HIPCs on loans outstanding as of March 31, 1999; this took effect on January 1, 2001, under the Canadian Debt Initiative (CDI); in 2001 this moratorium freed up about C$75 million in debt payments for other uses;
- forgiving, also under the CDI, all remaining debts owed to Canada for eligible countries that have completed the HIPC process; in 2002 Canada cancelled all debts owed by Tanzania (C$83.6 million) and Bolivia (C$10.2 million); HIPCs participating in the CDI owe Canada a combined C$700 million;
- forgiving C$1.3 billion in Official Development Assistance (ODA) debt to 46 developing countries since 1978, including all of its ODA debt to 22 HIPCs, at a cost of C$900 million; of the HIPCs, only Myanmar (formerly Burma) currently has ODA debt to Canada; and
- providing development assistance since 1986 on a grant basis so as to avoid worsening the debt problems in the poorest countries.

ANNEX 1

Active IMF Lending Arrangements—As of December 31, 2002

Member	Date of arrangement	Expiration date	Amount approved	Undrawn balance
			(in SDR millions)	
Stand-By Arrangements—Total			**55,829.10**	**30,204.69**
Argentina[1]	March 10, 2000	March 9, 2003	16,936.80	7,180.49
Bosnia and Herzegovina	August 2, 2002	November 1, 2003	67.60	36.00
Brazil[1]	September 6, 2002	December 31, 2003	22,821.12	18,256.90
Bulgaria	February 27, 2002	February 26, 2004	240.00	156.00
Dominica	August 28, 2002	August 27, 2003	3.28	1.23
Guatemala	April 1, 2002	March 31, 2003	84.00	84.00
Jordan	July 3, 2002	July 2, 2004	85.28	74.62
Lithuania	August 30, 2001	March 29, 2003	86.52	86.52
Peru	February 1, 2002	February 29, 2004	255.00	255.00
Romania	October 31, 2001	April 29, 2003	300.00	165.33
Turkey	February 4, 2002	December 31, 2004	12,821.20	2,892.00
Uruguay[1]	April 1, 2002	March 31, 2004	2,128.30	1,016.60
Extended Fund Facility Arrangements—Total			**4,288.00**	**1,926.24**
Indonesia	February 4, 2000	December 31, 2003	3,638.00	1,376.24
Serbia and Montenegro	May 14, 2002	May 13, 2005	650.00	550.00

[1] Includes amounts under the Supplemental Reserve Facility.

ANNEX 1

Active IMF Lending Arrangements—As of December 31, 2002 *(cont'd)*

Member	Date of arrangement	Expiration date	Amount approved	Undrawn balance
			(in SDR millions)	
Poverty Reduction and Growth Facility arrangements—Total			**4,520.21**	**2,428.18**
Albania	June 21, 2002	June 20, 2005	28.00	24.00
Armenia	May 23, 2001	May 22, 2004	69.00	39.00
Azerbaijan	July 6, 2001	July 5, 2004	80.45	64.35
Benin	July 17, 2000	March 31, 2004	27.00	8.08
Cambodia	October 22, 1999	February 28, 2003	58.50	8.36
Cameroon	December 21, 2000	December 20, 2003	111.42	47.74
Cape Verde	April 10, 2002	April 9, 2005	8.64	6.18
Chad	January 7, 2000	December 6, 2003	47.60	10.40
Congo, Dem. Rep. of	June 12, 2002	June 11, 2005	580.00	160.00
Côte d'Ivoire	March 29, 2002	March 28, 2005	292.68	234.14
Djibouti	October 18, 1999	January 17, 2003	19.08	5.45
Ethiopia	March 22, 2001	March 21, 2004	100.28	31.29
Gambia	July 18, 2002	July 17, 2005	20.22	17.33
Georgia	January 12, 2001	January 11, 2004	108.00	58.50
Guinea	May 2, 2001	May 1, 2004	64.26	38.56
Guinea-Bissau	December 15, 2000	December 14, 2003	14.20	9.12
Guyana	September 20, 2002	September 19, 2005	54.55	49.00
Kenya	August 4, 2000	August 3, 2003	190.00	156.40
Kyrgyzstan	December 6, 2001	December 5, 2004	73.40	49.96
Lao People's Democratic Republic	April 25, 2001	April 24, 2004	31.70	18.11
Lesotho	March 9, 2001	March 8, 2004	24.50	10.50
Madagascar	March 1, 2001	November 30, 2004	79.43	45.39
Malawi	December 21, 2000	December 20, 2003	45.11	38.67
Mali	August 6, 1999	August 5, 2003	51.32	12.90
Moldova	December 21, 2000	December 20, 2003	110.88	83.16
Mongolia	September 28, 2001	September 27, 2004	28.49	24.42
Mozambique	June 28, 1999	June 27, 2003	87.20	16.80
Nicaragua	December 13, 2002	December 12, 2005	97.50	90.54
Niger	December 22, 2000	December 21, 2003	59.20	25.36
Pakistan	December 6, 2001	December 5, 2004	1,033.70	689.12
Rwanda	August 12, 2002	August 11, 2005	4.00	3.43
São Tomé and Principe	April 28, 2000	April 27, 2003	6.66	4.76
Sierra Leone	September 26, 2001	September 25, 2004	130.84	56.00
Tajikistan	December 11, 2002	December 10, 2005	65.00	57.00
Tanzania	April 4, 2000	June 30, 2003	135.00	15.00
Uganda	September 13, 2002	September 12, 2005	13.50	12.00
Vietnam	April 13, 2001	April 12, 2004	290.00	165.80
Zambia	March 25, 1999	March 28, 2003	278.90	41.38
Total			64,637.31	34,559.11

ANNEX 2

IBRD Loans and IDA Credits— Fiscal Year 2002 (July 1, 2001 – June 30, 2002)

	IBRD	IDA	Total	
	Amount	Amount	No.	Amount
	(in millions of US dollars)			
By area				
Africa	41.8	3,751.6	65	3,793.5
East Asia and Pacific	982.4	791.2	27	1,773.6
Europe and Central Asia	4,894.7	628.9	48	5,523.6
Latin America and the Caribbean	4,188.1	177.8	53	4,365.8
Middle East and North Africa	451.8	102.7	14	554.5
South Asia	893.0	2,615.4	22	3,508.4
Total	**11,451.8**	**8,067.6**	**229**	**19,519.4**
By theme				
Economic management	0.0	536.0		536.0
Public sector governance	2,542.9	1,384.9		3,927.8
Rule of law	5.0	5.0		10.0
Financial and private sector development	4,809.8	1,779.7		6,589.5
Trade and integration	10.5	23.8		34.3
Social protection and risk management	358.0	569.7		927.6
Social development, gender, inclusion	30.0	110.0		140.0
Human development	1,513.4	1,058.9		2,599.3
Urban development	1,183.6	507.3		1,690.9
Rural development	779.7	1,742.6		2,522.3
Environment and natural resources management	218.9	322.8		541.7
Total	**11,451.8**	**8,067.6**		**19,519.4**

ANNEX 3

IBRD Loans and IDA Credits to Developing Countries

	IBRD		IDA		Total	
	No.	Amount	No.	Amount	No.	Amount
			(in millions of US dollars)			
By fiscal year (July–June)						
Cumulative to 1968	549	11,418.1	116	1,831.8	665	13,249.9
Total 1969-73	374	8,917.8	273	3,931.6	647	12,849.4
Total 1974-78	666	24,372.3	376	7,947.4	1,042	32,319.7
Total 1979-83	711	44,908.0	518	16,368.1	1,229	61,276.1
1983-84	129	11,947.2	106	3,575.0	235	15,522.2
1984-85	131	11,356.3	105	3,028.1	236	14,384.4
1985-86	131	13,178.8	97	3,139.9	228	16,318.7
1986-87	127	14,188.2	108	3,485.8	235	17,674.0
1987-88	118	14,762.0	99	4,458.7	217	19,220.7
1988-89	119	16,433.2	106	4,933.6	225	21,366.8
1989-90	121	15,179.7	101	5,522.0	222	20,701.7
1990-91	126	16,392.2	103	6,293.3	229	22,685.5
1991-92	112	15,156.0	110	6,549.7	222	21,705.7
1992-93	122	16,944.5	123	6,751.4	245	23,695.9
1993-94	124	14,243.9	104	6,592.1	228	20,836.0
1994-95	134	16,852.6	108	5,669.2	242	22,521.8
1995-96	129	14,656.0	127	6,864.0	256	21,520.0
1996-97	141	14,525.0	100	4,622.0	241	19,147.0
1997-98	151	21,086.2	135	7,507.8	286	28,594.0
1998-99	131	22,182.3	145	6,811.8	276	28,994.1
1999-00	97	10,918.6	126	4,357.6	223	15,276.2
2000-01	91	10,487.1	134	6,763.5	225	17,250.6
2001–02	96	11,451.8	133	8,067.6	229	19,519.4
Total	4,630	371,557.8	3,453	135,072	8,083	506,629.8

ANNEX 4

Disbursements by IBRD and IDA Borrowers:
Goods and Services From Canada—To June 30, 2002

	IBRD	IDA	Total
	Amount	Amount	Amount
		(in millions of US dollars)	
By calendar year			
Cumulative to December 1960	133.5	–	133.5
1961	8.2	–	8.2
1962	3.7	–	3.7
1963	5.6	7.4	13.0
1964	4.7	1.8	6.5
1965	5.4	2.7	8.1
1966	11.6	5.3	16.9
1967	13.2	14.7	27.9
1968	6.3	7.8	14.1
1969	4.4	11.0	15.4
1970	7.6	1.3	8.9
1971	11.1	2.2	13.3
1972	10.5	2.3	12.8
1973	12.4	5.1	17.5
1974	15.8	8.4	24.2
1975	22.1	15.0	37.1
1976	25.7	10.8	36.5
1977	34.5	4.8	39.3
1978	26.1	5.5	31.6
1979	44.4	8.1	52.5
1980	51.5	7.8	59.3
1981	94.3	14.5	108.8
1982	75.0	17.6	92.6
1983	82.3	26.9	109.2
1984	92.6	54.3	146.9
1985	94.3	39.7	134.0
1986	184.8	46.8	231.6
1987 (January–June)	92.8	23.4	116.2

ANNEX 4

Disbursements by IBRD and IDA Borrowers: Goods and Services From Canada—To June 30, 2002 *(cont'd)*

	IBRD	IDA	Total
	Amount	Amount	Amount
		(in millions of US dollars)	
By fiscal year			
1987–88	182.1	47.4	229.5
1988–89	197.0	45.0	242.0
1989–90	164.0	41.0	205.0
1990–91	139.0	34.0	173.0
1991–92	131.0	38.0	169.0
1992–93	151.0	41.0	192.0
1993–94	115.0	69.0	184.0
1994–95	123.0	48.0	171.0
1995–96	169.0	56.0	225.0
1996–97	113.0	42.0	155.0
1997–98	82.0	32.0	114.0
1998–99	69.0	37.0	106.0
1999–00	73.0	22.0	95.0
2000–01	45.0	15.0	60.0
2001–02	48.0	16.0	64.0
Total	2,926.0	902.0	3,828.0
Per cent of total disbursements	2.4	1.8	2.2
Per cent of FY 2002 disbursements	2.82	1.43	2.28

ANNEX 5

IBRD Loans and IDA Cumulative Lending by Country—
As of June 30, 2002

	IBRD loans	IDA loans	Total loans	
	Amount	Amount	No.	Amount
	(in millions of US dollars)			
Borrower or guarantor				
Afghanistan	–	230.1	20	230.1
Africa region	259.8	50.5	13	310.3
Albania	–	656.9	47	656.9
Algeria	5,728.4	–	70	5,728.4
Angola	–	310.8	11	310.8
Argentina	18,947.4	–	114	18,947.4
Armenia	12.0	683.9	28	695.9
Australia	417.7	–	7	417.7
Austria	106.4	–	9	106.4
Azerbaijan	–	531.1	18	531.1
Bahamas	42.8	–	5	42.8
Bangladesh	46.1	9,913.7	174	9,959.8
Barbados	118.4	–	12	118.4
Belarus	192.8	–	4	192.8
Belgium	76.0	–	4	76.0
Belize	86.2	–	9	86.2
Benin	–	784.5	53	784.5
Bhutan	–	64.3	9	64.3
Bolivia	299.3	1,752.2	79	2,051.5
Bosnia and Herzegovina	–	811.5	39	811.5
Botswana	280.7	15.8	25	296.5
Brazil	31,945.6	–	277	31,945.6
Bulgaria	1,533.1	–	26	1,533.1
Burkina Faso	1.9	1,185.5	56	1,185.5
Burundi	4.8	824.5	52	829.3
Cambodia	–	478.3	19	478.3
Cameroon	1,347.8	1,126	72	2,473.8
Cape Verde	–	178.4	17	178.4
Caribbean region	83.0	43.0	6	126.0
Central African Republic	–	448.5	27	448.5
Chad	39.5	836.5	42	876.0
Chile	3,684.9	19.0	63	3,703.9
China	26,129.2	9,946.7	239	36,075.9
Colombia	10,499.1	19.5	165	10,518.6
Comoros	–	119.1	18	119.1
Congo, Democratic Republic of	330.0	1,651.5	68	1,981.5
Congo, Republic of	216.7	273.3	24	490.0
Costa Rica	938.5	5.5	40	944.0
Côte d’Ivoire	2,887.9	2,042.5	87	4,930.4
Croatia	983.6	–	18	983.6
Cyprus	418.8	–	30	418.8
Czech Republic	776.0	–	3	776.0
Denmark	85.0	–	3	85.0
Djibouti	–	125.6	15	125.6
Dominica	4.0	16.3	5	20.3
Dominican Republic	896.7	22.0	34	918.7

ANNEX 5

IBRD Loans and IDA Cumulative Lending by Country—
As of June 30, 2002 *(cont'd)*

	IBRD loans	IDA loans	Total loans	
	Amount	Amount	No.	Amount
		(in millions of US dollars)		
Ecuador	2,723.2	36.9	77	2,7601.1
Egypt, Arab Republic of	4,547.5	1,984.0	105	6,531.5
El Salvador	963.2	25.6	35	988.8
Equatorial Guinea	–	45.0	9	45.0
Eritrea	–	385.4	11	385.4
Estonia	150.7	–	8	150.7
Ethiopia	108.6	3,779.5	82	3,888.1
Fiji	152.9	–	12	152.9
Finland	316.8	–	18	316.8
France	250.0	–	1	250.0
Gabon	227.0	–	14	227.0
Gambia	–	259.2	28	259.2
Georgia	–	649.8	28	649.8
Ghana	207.0	4,016.4	110	4,223.4
Greece	490.8	–	17	490.8
Grenada	10.0	16.5	4	26.5
Guatemala	1,325.3	–	38	1,325.3
Guinea	75.2	1,293.2	59	1,368.4
Guinea-Bissau	–	285.9	23	285.9
Guyana	80.0	307.6	29	387.6
Haiti	2.6	626.5	37	629.1
Honduras	717.3	1,258.5	63	1,975.8
Hungary	4,333.6	–	40	4,333.6
Iceland	47.1	–	10	47.1
India	29,690.4	28,844.6	434	58,535.0
Indonesia	27,572.3	1,468.1	297	29,040.4
Iran, Islamic Republic of	2,290.1	–	41	2,290.1
Iraq	156.2	–	6	156.2
Ireland	152.5	–	8	152.5
Israel	284.5	–	11	284.5
Italy	399.6	–	8	399.6
Jamaica	1,531.0	–	66	1,531.0
Japan	862.9	–	31	862.9
Jordan	2,041.7	85.3	68	2,127.0
Kazakhstan, Republic of	1,883.6	–	22	1,883.6
Kenya	1,200.7	3,237.5	125	4,4438.2
Korea, Republic of	15,647.0	110.8	120	15,757.8
Kyrgyzstan	–	621.4	25	621.4

ANNEX 5

IBRD Loans and IDA Cumulative Lending by Country— As of June 30, 2002 *(cont'd)*

	IBRD loans	IDA loans	Total loans	
	Amount	Amount	No.	Amount
		(in millions of US dollars)		
Lao People's Democratic Republic	–	662.6	32	662.6
Latvia	395.8	–	18	395.8
Lebanon	1,048.6	–	20	1,048.6
Lesotho	155.0	331.8	31	486.8
Liberia	156.0	114.5	33	270.5
Lithuania	490.9	–	17	490.9
Luxembourg	12.0	–	1	12.0
Macedonia (Former Yugoslav Repubic of)	276.0	378.7	26	654.7
Madagascar	32.9	2,164.5	86	2,197.4
Malawi	124.1	1,956.6	79	2,080.7
Malaysia	4,150.6	–	88	4,150.6
Maldives	–	64.9	7	64.9
Mali	1.9	1,565.3	65	1,567.2
Malta	7.5	–	1	7.5
Mauritania	146.0	736.7	52	882.7
Mauritius	459.7	20.2	37	479.9
Mexico	33,821.1	–	182	33,821.1
Moldova	302.8	201.5	18	504.3
Mongolia	–	300.4	17	300.4
Morocco	8,545.4	50.8	131	8,596.2
Mozambique	–	2,262.1	42	2,262.1
Myanmar	33.4	804.0	33	837.4
Nepal	–	1,634.5	72	1,634.5
Netherlands, The	244.0	–	8	244.0
New Zealand	126.8	–	6	126.8
Nicaragua	233.6	1,090.2	58	1,323.8
Niger	–	1,030.9	50	1,030.9
Nigeria	6,248.2	1,584.5	107	7,835.7
Norway	145.0	–	6	145.0
Organization of Eastern Caribbean States' countries	24.5	12.6	3	37.1
Oman	157.1	–	11	157.1
Pakistan	6,614.2	6,642.5	196	13,256.7
Panama	1,273.2	–	45	1,273.2
Papua New Guinea	786.6	113.2	44	899.8
Paraguay	816.9	45.5	43	862.4
Peru	5,298.2	–	87	5,298.2
Philippines	11,138.7	294.2	162	11,432.9
Poland	5,384.8	–	37	5,384.8
Portugal	1,338.8	–	32	1,338.8

ANNEX 5

IBRD Loans and IDA Cumulative Lending by Country—
As of June 30, 2002 *(cont'd)*

	IBRD loans	IDA loans	Total loans	
	Amount	Amount	No.	Amount
		(in millions of US dollars)		
Russia	12,560.0	–	51	12,560.0
Rwanda	–	1,073.0	54	1,073.0
Samoa	–	66.0	10	66.0
São Tomé and Principe	–	68.9	10	68.9
Senegal	164.9	2,162.9	100	2,327.8
Seychelles	10.7	–	2	10.7
Sierra Leone	18.7	537.2	30	555.9
Singapore	181.3	–	14	181.3
Slovak Republic	335.8	–	4	335.8
Slovenia	177.7	–	5	177.7
Solomon Islands	–	49.9	8	49.9
Somalia	–	492.1	39	492.1
South Africa	287.8	–	12	287.8
Spain	478.7	–	12	478.7
Sri Lanka	210.7	2,428.7	89	2,639.4
Saint Kitts and Nevis	10.9	1.5	3	12.4
Saint Lucia	19.2	24.4	7	43.6
Saint Vincent and the Grenadines	5.4	11.6	4	16.9
Sudan	166.0	1,352.9	55	1,518.9
Swaziland	104.8	7.8	14	112.6
Syrian Arab Republic	613.2	47.3	20	660.5
Taiwan, Province of China	329.4	15.3	18	344.7
Tajikistan	–	302.1	17	302.1
Tanzania	318.9	3,910.6	120	4,229.5
Thailand	7,979.1	125.1	124	8,104.2
Togo	20.0	733.5	42	753.5
Tonga	–	10.9	3	10.9
Trinidad and Tobago	313.6	–	21	313.6
Tunisia	4,954.1	74.6	120	5,028.7
Turkey	20,117.9	178.5	145	20,296.4
Turkmenistan	89.5	–	3	89.5
Uganda	9.1	3,401.4	83	3,410.5
Ukraine	3,222.8	–	22	3,222.8
Uruguay	1,815.1	–	49	1,815.1
Uzbekistan	519.1	20.0	12	539.1
Vanuatu	–	18.9	5	18.9
Venezuela	3,328.4	–	40	3,328.4
Vietnam	–	3,862.5	36	3,862.5
Western Africa region	6.1	61.9	5	68.0
Yemen, Republic of	–	1,995.9	125	1,995.9
Yugoslavia, Federal Republic of	--	171.8	4	171.8
	6,060.7	--	89	6,090.7
Zambia	679.1	2,492.3	78	3,171.4
Zimbabwe	983.2	661.9	36	1,645.1
Bank-wide total	**371,471.9**	**135,073.5**	**8,070**	**506,545.3**

ANNEX 6

Projects Approved for IBRD and IDA Assistance in Fiscal Year 2002, by Country (July 1, 2001 – June 30, 2002)

	IBRD loans	IDA loans	Total loans	
	Amount	Amount	No.	Amount
		(in millions of US dollars)		
Borrower or guarantor				
Afghanistan	–	100	4	100
Albania	–	87.5	5	87.5
Algeria	30.7	–	3	30.7
Argentina	735.0	–	3	735.0
Armenia	–	39.2	4	39.2
Azerbaijan	–	69.5	2	69.5
Bangladesh	–	321.4	4	321.4
Benin	–	41.0	2	41.0
Bolivia	–	83.0	1	83.0
Bosnia and Herzegovina	–	102.0	4	102.0
Brazil	1,566.3	–	11	1,566.3
Burkina Faso	–	121.6	4	121.6
Burundi	–	36.0	1	36.0
Cambodia	–	48.2	3	48.2
Cameroon	–	5.5	1	5.5
Cape Verde	–	24.0	2	24.0
Central African Republic	--	17	1	17.0
Chad	–	64.6	2	64.6
Chile	99.0	–	2	99.0
China	562.9	–	5	562.9
Colombia	185.5	–	2	185.5
Comoros	–	6.0	1	6.0
Congo, Democratic Republic of	–	500	2	500
Congo, Republic of	–	89.7	4	89.7
Costa Rica	17.0	–	1	17.0
Côte d'Ivoire	–	212.0	1	212.0
Croatia	202.0	–	1	202.0
Djibouti	–	25.0	2	25.0
Dominica	1.0	2.2	1	3.2
Ecuador	66.9	–	3	66.9
El Salvador	1.1	2.7	1	3.8
Egypt, Arab Republic of	50.0	–	1	50.0
Eritrea	–	65.0	2	65.0
Ethiopia	–	210.0	3	210.0
Gambia, The	–	31.0	2	31.0
Georgia	–	2.7	1	2.7
Ghana	–	330.5	2	330.5
Grenada	1.1	2.7	1	3.8
Guatemala	184.8	–	3	184.8
Guinea	–	145.0	2	145.0
Guinea-Bissau	–	26.0	1	26.0
Honduras	–	40.4	2	40.4

ANNEX 6

Projects Approved for IBRD and IDA Assistance in Fiscal Year 2002, by Country (July 1, 2001 – June 30, 2002) *(cont'd)*

	IBRD loans	IDA loans	Total loans	
	Amount	Amount	No.	Amount
	(in millions of US dollars)			
India	893.0	1,296.5	10	2,189.5
Indonesia	232.2	70.5	3	302.7
Jamaica	130.0	–	3	130.0
Jordan	5.0	–	1	5.0
Kenya	–	16.5	1	16.5
Kyrgyzstan	–	15.0	1	15.0
Lao People's Democratic Republic	–	44.8	3	44.8
Latvia	2.0	–	1	2.0
Lebanon	108.5	–	2	108.5
Lithuania	42.5	–	2	42.5
Macedonia (Former Yugoslav Republic of)	–	35.0	3	35.0
Madagascar	–	43.8	2	43.8
Mali	–	113.5	2	113.5
Mauritania	–	122.5	3	122.5
Mauritius	41.8	–	2	41.8
Mexico	660.0	–	4	660.0
Moldova	–	45.5	2	45.5
Mongolia	–	28.7	3	28.7
Morocco	5.0	–	1	5.0
Mozambique	–	270.5	4	270.5
Nepal	–	22.6	1	22.6
Nicaragua	–	32.6	1	32.6
Niger	–	108.7	2	108.7
Nigeria	–	427.3	4	427.3
Pakistan	–	800	2	800
Papua New Guinea	57.4	–	2	57.4
Panama	10.5	–	1	10.5
Paraguay	9.0	–	1	9.0
Philippines	130.0	–	2	130.0
Poland	100.0	–	1	100.0
Romania	60.0	–	2	60.0
Russian Federation	351.0	–	2	350.1
Rwanda	–	25.0	1	25.0
Senegal	–	44.7	2	44.7
Sierra Leone	–	65.0	2	65.0
Slovak Republic	200.8	–	2	200.8
Sri Lanka	–	75.0	1	75.0
Saint Kitts and Nevis	9.4	–	2	9.4
Saint Lucia	9.2	11.7	3	20.9
Saint Vincent and the Grenadines	4.0	5.2	2	9.1

ANNEX 6

Projects Approved for IBRD and IDA Assistance in Fiscal Year 2002, by Country (July 1, 2001 – June 30, 2002) *(cont'd)*

	IBRD loans	IDA loans	Total loans	
	Amount	Amount	No.	Amount
		(in millions of US dollars)		
Tajikistan	–	40.8	3	40.8
Tanzania	–	402.0	5	402.0
Tonga	–	5.9	1	5.9
Tunisia	252.5	–	1	252.5
Turkey	3,550.0	–	4	3,550.0
Uganda	–	180.7	4	180.7
Ukraine	330.2	–	3	330.2
Uruguay	60.5	–	2	60.5
Uzbekistan	56.1	20.0	2	76.1
Vietnam	–	593.0	5	593.0
Yemen, Republic of	–	77.7	3	77.7
Yugoslavia, Federal Republic of	–	171.8	4	171.8
Zambia	–	6.7	1	6.7
Bank-wide total	11,451.8	8,067.6	229	19,519.4