Report on Operations Under the Bretton Woods and Related Agreements Act

2006

CANADA'S NEW GOVERNMENT

Canada

Report on Operations Under the Bretton Woods and Related Agreements Act

2006

Department of Finance Canada   Ministère des Finances Canada

Available from the

Distribution Centre
Department of Finance Canada
Room P-135, West Tower
300 Laurier Avenue West
Ottawa, Ontario K1A 0G5
Tel: 613-995-2855
Fax: 613-996-0518

Also available on the Internet at
www.fin.gc.ca

Cette publication est également disponible en français.

Cat. No.: F1-28/2006E
ISBN 978-0-662-45366-6

Table of Contents

A Word From the Minister of Finance

I am pleased to present to Members of Parliament and to the Canadian public the Department of Finance's 2006 Report on the Operations Under the Bretton Woods and Related Agreements Act. This report responds to the requirement laid out in Section 13 of the Bretton Woods and Related Agreements Act 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 thererafter that either House of Parliament is sitting," a report containing a summary of operations under this act and details of how those operations directly affect Canada.

The format of this report differs significantly from those of past years. My colleagues in Parliament have delivered a strong message that this annual report needs to present a clearer picture of Canada's priorities and actions. This view was strongly reiterated in my meeting with Canadian civil society in October 2006, following the Annual Meetings of the International Monetary Fund (IMF) and World Bank. Given this feedback, combined with reactions from parliamentarians, the 2006 report has been recast with three goals in mind:

1. To improve the accountability of the Department of Finance in managing Canada's relationship with the IMF and World Bank.
2. To make Canada's policy objectives with respect to these institutions clearer, which in turn will make it easier to measure success.
3. To have Canada continue to push the frontiers of disclosure, without violating Canada's requirement to respect the confidentiality policies of these institutions.

The 2006 report focuses more clearly on Canada's policy objectives in relations with the Bretton Woods institutions, which can be summarized as:

1. Improving governance and accountability.
2. Reforming the IMF to strengthen the international financial system.
3. Improving aid effectiveness.
4. Promoting sustainable development.

It is my hope that this report will provide parliamentarians and all Canadians with a better understanding of the important role that Canada is playing in making the IMF and World Bank more effective and more accountable institutions.

The Honourable James M. Flaherty, P.C., M.P.
Minister of Finance

The Bretton Woods Institutions—Mandates and Operations

The World Bank and the International Monetary Fund (IMF) were founded at the United Nations Monetary and Financial Conference held at Bretton Woods, New Hampshire, in 1944 to promote recovery from the Second World War and to establish the basis for a stable world economic and financial system. Together they are informally known as the Bretton Woods institutions.

International Monetary Fund

The IMF's mandate is to promote international monetary cooperation, exchange rate stability and orderly exchange arrangements; to foster economic growth and high levels of employment; and to provide temporary financial assistance to countries to help ease balance of payments adjustment. Since the IMF was established, this mandate of promoting global economic and financial stability has remained unchanged but its operations—which involve surveillance, financial assistance and technical assistance—have evolved to meet the changing needs of its member countries in a constantly shifting global economy.

Surveillance of national and global economic developments is the IMF's main tool for assessing risks to global economic and financial stability. The IMF's main surveillance activities are undertaken on a country-by-country basis, under Article IV of the institution's Articles of Agreement. Through its Article IV consultations, the IMF seeks to identify policy strengths and weaknesses and to provide advice on appropriate corrective measures, if needed. In its 2006 fiscal year[1], the IMF conducted 131 Article IV country consultations. Recognizing the importance of regional linkages, the IMF has been putting more emphasis on regional contexts and possible regional spillovers from national economic policies. In 2006, the IMF undertook policy discussions on four currency unions, including with the Eastern Caribbean Currency Union.

The main instruments of the IMF's global surveillance are its semi-annual *World Economic Outlook* and *Global Financial Stability Report*. In 2006, the focus of the IMF's global surveillance was on the risks posed by global imbalances, high oil prices, and rising interest rates in developed countries. At the initiative of the Managing Director, the IMF broadened its approach to global surveillance by hosting a special conference for policy makers from systemically important countries and selected academics that discussed strategies to tackle global imbalances.

In March 2006, the IMF Executive Board assessed the IMF's Independent Evaluation Office (IEO) review of the institution's multilateral surveillance. While the review was largely positive, the IEO did identify areas for improvement. In particular, the IEO recommended that the surveillance reports should be less descriptive and more analytical.

How the IMF Works

The IMF works like a credit union. Although it has only limited resources of its own, it has access to a large pool of liquid assets, or resources provided by its members, comprising convertible national currencies, special drawing rights (SDRs) and other widely used international currencies, which it makes available to help members finance temporary balance of payments problems. When requested to do so, members provide resources to the IMF in amounts determined by "quotas" reflecting each country's relative economic weight 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 July 2006, the total quota for the Fund's 184 members stood at SDR 213.5 billion.

[1] The IMF's fiscal year runs from May 1 to April 30.

Special Drawing Right (SDR)

The SDR is an international reserve asset, created by the IMF in 1969 to supplement the existing official reserves of member countries. SDRs are allocated to member countries in proportion to their IMF quotas. The SDR also serves as the unit of account at both the IMF and the World Bank. Its value is based on a basket of key international currencies consisting of the euro, Japanese yen, pound sterling and US dollar. Canada has reserves of SDR 533.4 million at the IMF, resulting in a quota of SDR 6,369.2 million. At December 29, 2006, the Canadian dollar exchanged with the SDR at a rate of 1.753080 C$ per SDR.

A member country will seek an IMF financial program in response to a serious balance of payments or fiscal problem. In these cases, the IMF will provide financing to allow a country to purchase needed imports, repay external borrowing or bolster its foreign exchange reserves. A country obtains access to the general resources of the IMF by purchasing (drawing) other members' currencies with an equivalent amount of its own currency. It repays the IMF by repurchasing its own currency with other members' currencies over a specified period of time, with interest. In this way, a member country borrows from other members, with the IMF as an intermediary. A member, such as Canada, that provides the resources lent to the country facing balance of payments difficulties receives a competitive rate of interest on the resources it has provided.

A member requesting financial assistance reaches an agreement with the IMF staff on a set of economic measures and reforms aimed at removing the underlying source of the country's balance of payments difficulty. The details of this integrated economic program and the amount and duration of financing are then approved by the IMF's Executive Board, which consists of representatives appointed or elected by the IMF's member countries. Typically, IMF financial assistance is provided in stages, or "tranches," with the release of each tranche accompanied by verification that the country is continuing to follow the agreed economic program, and is meeting agreed policy conditions.

Depending on the prospective size and 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. Members affected by a natural disaster or emerging from a conflict can also access Fund facilities on an expedited basis.

Over the past several years, the IMF has developed new instruments to strengthen its support to low-income countries. These include the Policy Support Instrument (PSI), which is a non-lending instrument that is available to members that do not need or want IMF financial assistance, but voluntarily request IMF endorsement and continued assessment of their policies. Canada was a strong advocate of the development of this instrument, which was introduced in late 2005. To date, Nigeria, Uganda and Cape Verde have benefited from the PSI.

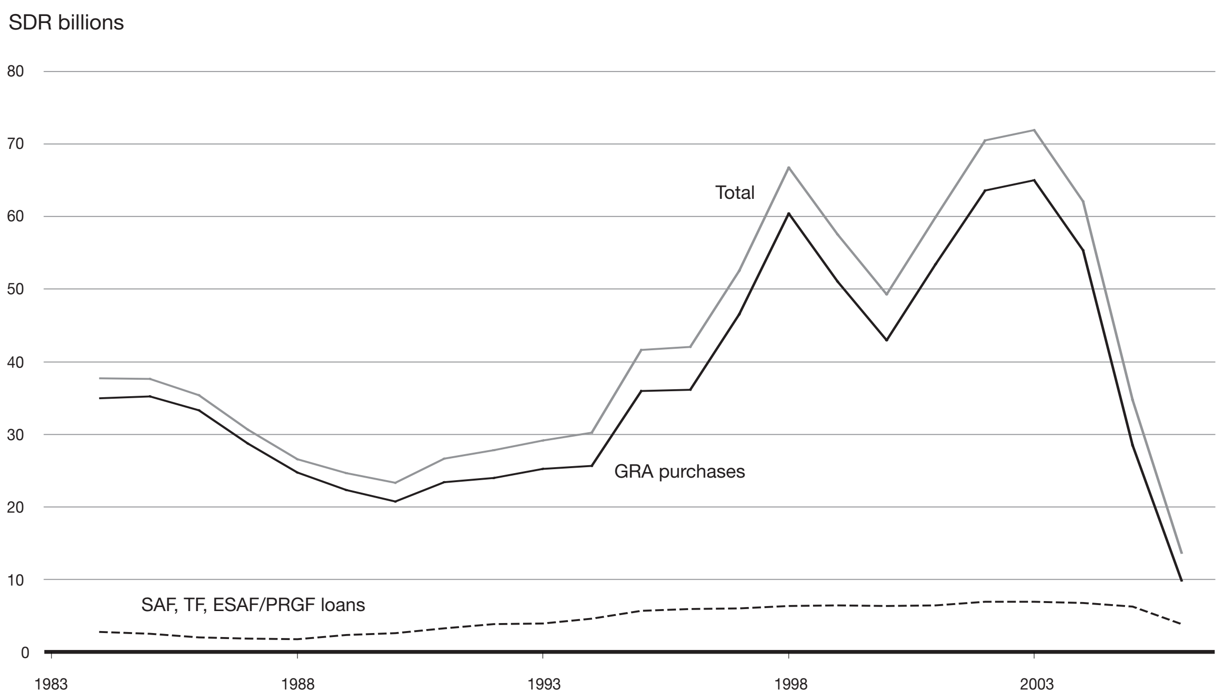
As well, below-market-rate (concessional) financing to low-income developing countries under the Poverty Reduction and Growth Facility (PRGF) is made available in the form of low-interest loans with extended repayment periods. A new instrument in the PRGF, the Exogenous Shocks Facility (ESF), provides timely concessional support to low-income countries that are facing a balance of payments problem due to exogenous shocks, such as a spike in energy prices or a significant deterioration in terms of trade.

Regular Financing Activities

The generally benign global economic and financial environment has led to less demand for borrowing from the IMF in recent years, as fewer countries need its assistance in responding to balance of payments or other economic difficulties. Indeed, many countries that had borrowed during the previous periods of difficulty have been able to repay the IMF ahead of schedule. During fiscal year (FY) 2006, repayments on loans increased sharply to SDR 32.8 billion. Chart 1 illustrates this trend. Many countries repaid all of their General Resource Account obligations to the IMF, SDR 21.9 billion of which was repaid ahead of schedule by Algeria, Argentina, Brazil, Bulgaria and Uruguay. Disbursements during the year were relatively low—totalling SDR 2.2 billion—the bulk of which was disbursed to Turkey under its Stand-By Arrangement. In addition, emergency post-conflict assistance disbursements totalling SDR 17.2 million were made to the Central African Republic and Haiti. Reflecting the high level of net repayments, IMF credit outstanding at the end of FY2006 stood at SDR 19.2 billion, a 25-year low, compared with SDR 49.9 billion a year earlier.

As a result of loan repayments, the IMF's liquidity rose to a record SDR 120.1 billion at the end of FY2006, as measured by the Fund's one-year forward commitment capacity.

Chart 1
IMF Credit Outstanding for All Members



Note: GRA = General Resource Account; SAF = Structural Adjustment Facility; TF = Transfer Fund; ESAF = Enhanced Structural Adjustment Facility; PRGF = Poverty Reduction and Growth Facility.
Source: www.imf.org/external/fin.htm.

Concessional Financing

The IMF provides loans with subsidized interest rates to its poorest members through the Poverty Reduction and Growth Facility (PRGF). The Executive Board approved seven new PRGF arrangements during FY2006 totalling SDR 107.9 million. As of the end of FY2006, total loan resources available for PRGF-ESF operations amounted to SDR 15.8 billion, of which SDR 12.9 billion had already been committed to borrowing members. The IMF invests assets supporting the PRGF lending and the Heavily Indebted Poor Countries (HIPC) Initiative in a diversified portfolio of fixed-income securities issued by governments and international financial institutions. As of April 30, the value of these assets declined from SDR 9.6 billion in FY2005 to SDR 7.4 billion in FY2006, primarily owing to the early repayment of PRGF-ESF Trust lenders in connection with the Multilateral Debt Relief Initiative (MDRI). Annual return on the portfolio was 2.8 per cent in FY2006, up from 2.1 per cent in FY2005.

As of the end of FY2006, nine member countries pledged contributions totalling SDR 219 million to the ESF. Total disbursements of HIPC assistance by the IMF amounted to SDR 1.6 billion at the end of FY2006, and the IMF delivered debt relief totalling SDR 2.5 billion to 20 qualifying countries under the MDRI.

As of the end of FY2006, 17 member countries had pledged contributions totalling SDR 40.3 million for the subsidization of emergency assistance. In FY2006, two countries made purchases under emergency post-conflict assistance: Haiti (SDR 10.2 million) and the Central African Republic (SDR 7.0 million).

Technical Assistance

Technical assistance is another important IMF instrument to assist member countries. The IMF offers technical assistance in its core areas of expertise such as macroeconomic policy, tax and revenue administration, public expenditure management, monetary policy, exchange systems, financial sector reform, and statistical capacity building. In 2006, the IMF provided more than 429 person-years[2] of technical assistance, roughly three-quarters of which was directed to low- and lower-middle-income countries. The IMF took a number of steps during the year to improve the management and delivery of its technical assistance to strengthen country ownership and to better align technical assistance priorities with its surveillance function.

Operational highlights and key financial indicators for the IMF are shown in Annex 5.

World Bank Group

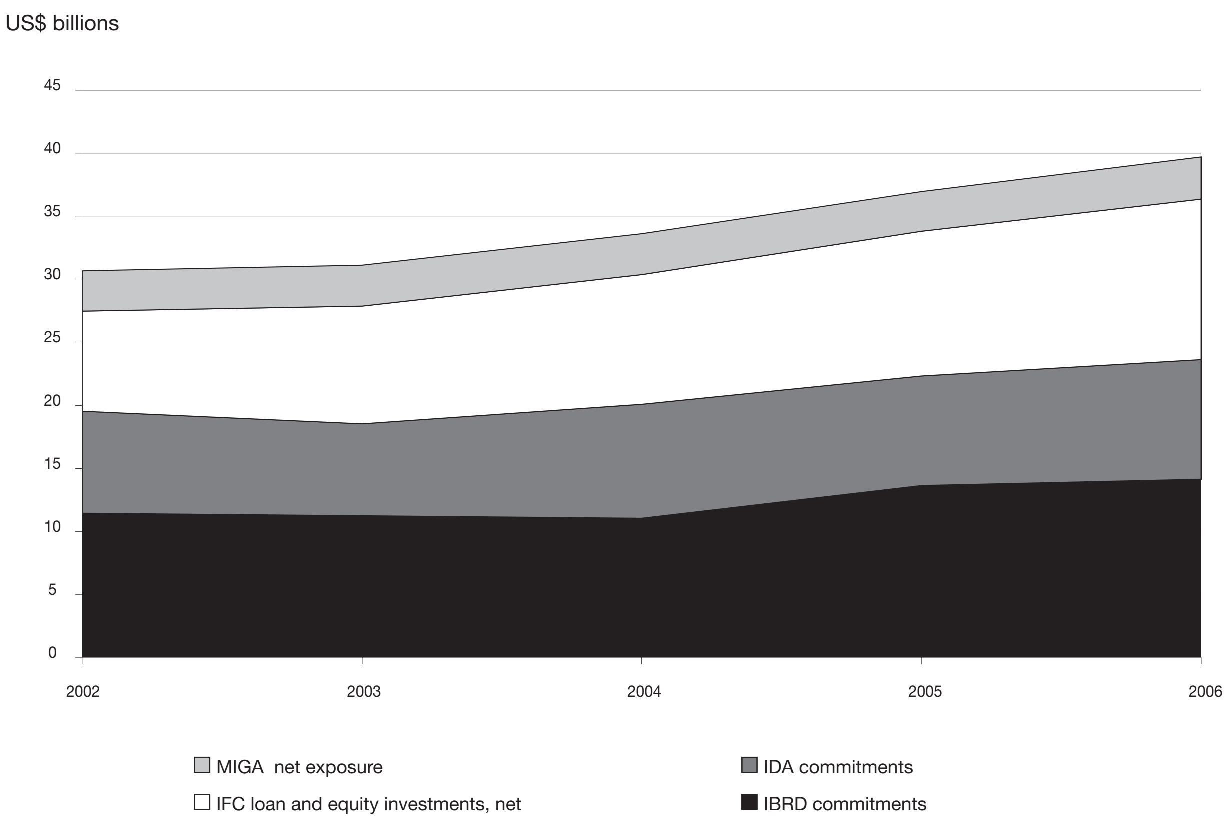
The World Bank Group is made up of five complementary but distinct entities: the International Bank for Reconstruction and Development (IBRD), the International Development Association (IDA), the International Finance Corporation (IFC), the Multilateral Investment Guarantee Agency (MIGA) and the International Centre for Settlement of Investment Disputes (ICSID). Each institution plays a different but reinforcing role in promoting global poverty reduction.

[2] One person-year equals 260 working days.

The World Bank's broad mission is to reduce global poverty. The Bank's work focuses on achievement of the Millennium Development Goals, which set concrete targets for the elimination of poverty and sustained development. The goals provide the Bank and other donors with common targets and yardsticks for measuring results. The Bank's mission is to help developing countries and their people reach these goals by working with partners to alleviate poverty. To do that, the Bank concentrates on building the climate for investment, jobs and sustainable growth so that economies will grow, and by investing in poor people and empowering them to participate in development.

Overall, World Bank Group activities have expanded in the last five years. The trend in activities by institution is shown in Chart 2. World Bank Group activities by region are shown in Table 1. IDA lending is focused on low-income countries, while the IBRD, IFC and MIGA focus on middle-income countries and on private sector development. This different focus translates into a greater proportion of activities in Europe and Central Asia and in Latin America and the Caribbean than in Africa or South Asia.

Chart 2
World Bank Group Activities by Fiscal Year Ending June 30



The International Bank for Reconstruction and Development and the International Development Association

The IBRD and IDA (together commonly known as the World Bank) provide funding for investments in education, health, infrastructure, communications and many other areas. The IBRD lends on non-concessional terms to better-off borrowing members, while IDA provides 35- and 40-year interest-free credits and grants to the poorest members. 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, and lends at an interest rate that is slightly above its borrowing costs. In effect, the IBRD on-lends to borrowing countries at a rate of interest much lower than the rate they could secure on their own borrowings. IDA, on the other hand, is financed through donor contributions, loan repayments and annual allocations from the IBRD and, in FY2006[3], IFC net income.

Combined IBRD-IDA lending increased by 5.7 per cent from US$22.3 billion in FY2005 to US$23.6 billion in FY2006. IDA reached its target of 50 per cent lending in Africa in FY2006, up from 45 per cent in FY2005. Combined IBRD-IDA lending in Europe was stable compared to FY2005 and increased in all regions except for South Asia, where lending in FY2005 was high due to the tsunami on the Indian Ocean. The largest increases in combined IBRD-IDA lending were in Africa, followed by Latin America and the Caribbean.

Combined IBRD-IDA lending by theme and region is summarized in Chart 3. Compared to FY2005, the two largest thematic increases in lending in FY2006 were for financial and private sector development and public sector governance, reflecting an increased focus on fostering a climate for investment. Lending in these areas increased from 29 per cent of total IBRD-IDA lending in FY2005 to 42 per cent in FY2006. By region, their proportion of total lending in FY2006 was 41 per cent for Africa, 32 per cent for East Asia and Pacific, 30 per cent for South Asia, 51 per cent for Europe and Central Asia, 44 per cent for Latin America and the Caribbean, and 67 per cent for the Middle East and North Africa.

[3] The World Bank's fiscal year runs from July 1 to June 30.

Chart 3
World Bank Commitments by Theme and Region in the 2006 Fiscal Year

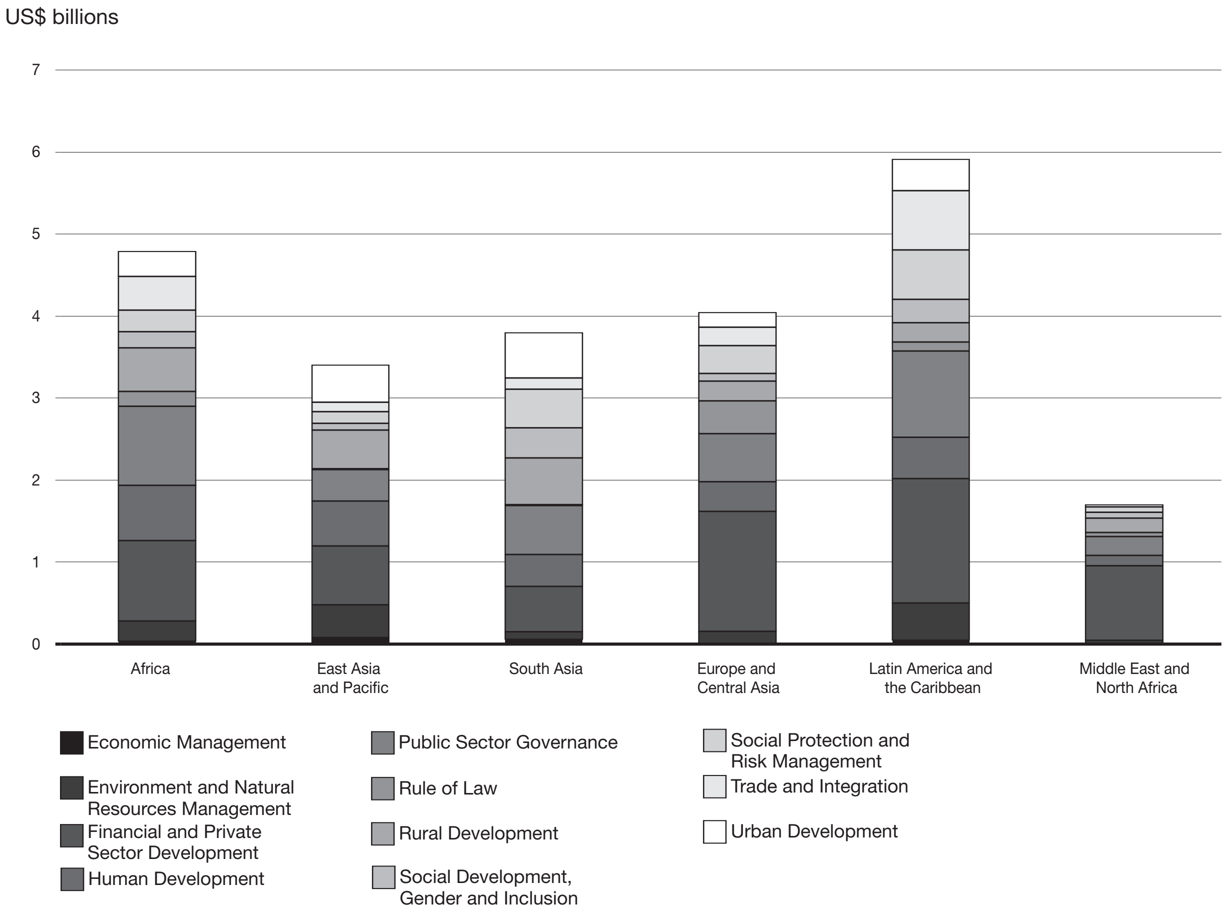


Table 1
World Bank Group Lending Activities by Region in FY2006

Region	IBRD FY2006 Commitments	IDA FY2006 Commitments	Combined IBRD-IDA	IFC Own Account Commitments as of FY2006	MIGA Net Exposure[1]
			(per cent)		
Sub-Saharan Africa	<1	50	20	9	19
East Asia and Pacific	17	11	14	15	16[2]
South Asia	9	27	16	8	
Europe and Central Asia	25	5	17	30	35
Latin America and the Caribbean	40	3	25	29	22
Middle East and North Africa	9	4	7	7	8

[1] Net exposure is maximum aggregate liability less reinsurance.

2 Includes South Asia.

Operational highlights and key financial indicators for World Bank Group associations are shown in Annex 5.

The International Finance Corporation

The IFC supplements the activities of the IBRD and IDA by undertaking investments on commercial terms in productive private sector enterprises in developing countries. The IFC provides services such as direct private sector loans, equity investments, resource mobilization and technical assistance. As of June 30, 2006, the total committed loan and equity portfolio for the IFC's own account was equivalent to US$21.6 billion.

In FY2006, investment commitments for the IFC's own account totalled US$6.7 billion for 284 projects in the developing world, compared to US$6.5 billion in FY2005. The IFC is ahead of schedule on its three-year plan launched in FY2005 to triple investment commitments over three years. The IFC's expansion is consistent with Canadian priorities for the institution, mainly an increased focus on frontier markets and investments in the private sector that facilitate a transition towards autonomy and sustainable economic activity. In FY2006, activities in areas of high developmental impact, such as investment in low-income or high-risk countries and regions, exceeded US$1.5 billion compared to US$1.3 billion for FY2005. Investment commitments in Sub-Saharan Africa increased almost 57 per cent from FY2005 to US$700 million. Commitments in small and medium-sized enterprises tripled over the last three years to reach US$1.6 billion in FY2006. In addition, the IFC increased investments in infrastructure and in private health and education by over 50 per cent in FY2006.

The Multilateral Investment Guarantee Agency

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 2006 amounted to US$5.4 billion (including reinsurance).

In FY2006, MIGA issued 66 guarantees totalling US$1.32 billion for 41 projects, compared to US$1.2 billion in FY2005 (including reinsurance). These included 23 projects in frontier markets (US$481 million), which represented 37 per cent of MIGA's portfolio for the year. There were 10 projects in conflict-affected countries (US$165 million), and 14 infrastructure projects ($469 million). By region, 13 projects were in Sub-Saharan Africa, 13 in Latin America and the Caribbean, 6 in Europe and Central Asia, 6 in East Asia and Pacific and 3 in the Middle East and North Africa. The FY2006 increase in frontier markets reflected MIGA's strategic focus on the sector. MIGA's portfolio composition changed with continued efforts to increase the involvement of investors from developing countries, a decrease in support for financial sector projects, and slightly increased coverage for projects in oil, mining and gas.

International Centre for Settlement of Investment Disputes

ICSID provides facilities for the conciliation and arbitration of investment disputes between member countries and private investors. Canada is not currently a member of ICSID as it requires both federal and provincial implementing legislation, and to date not all provinces have introduced the appropriate legislation. However, both the federal government and all of the provinces have now indicated a willingness to introduce legislation, and so in 2006 Canada signed its convention with the hopes of ratification in the next year. This will provide Canadian investors with an additional mechanism for the resolution of investment disputes pursued under international arbitration.

The World Bank Plays an Important Role in Supporting Global Programs

The International Development Association (IDA) is one of the largest sources of assistance for developing countries, providing around US$7 billion–US$9 billion a year in interest-free credits and grants.

While IDA's expertise lies in providing assistance at the country level, there has been a growing movement in the international community to also tackle major development challenges at a global or regional level. To this end, a considerable number of global programs have been established in the last few years, working alongside the World Bank's country assistance programs.

The World Bank plays an important role in supporting these initiatives, acting as a financier, administrator or participant in 125 global programs and 50 regional programs. Together, these programs disbursed US$3 billion in donor funding in 2006.

Financier—The World Bank has become by far the largest financial trustee for these programs, managing a stock of funds totalling more than US$6 billion at the end of June 2006.

Administrator—Fifty-eight global programs are managed by and housed within the World Bank.

Participant—The World Bank's Development Grant Facility, with an annual budget of US$176 million, provides direct grant support for global programs. Support is also provided through regular country assistance operations and sector-specific work.

Global programs operate in a number of sectors, including health and environment and agriculture. Canada has provided considerable support to a number of these programs over the years.

Selected Sectors	Examples of Global Programs	Canadian Contributions
Health	Global Fund to Fight AIDS, Tuberculosis and Malaria	$550 million since 2000
	Stop TB Partnership	$200 million since 2001
	GAVI Alliance	$200 million since 2000
	Global Polio Eradication Initiative	$207million since 1988
Environment	Global Environment Facility	$40 million per year
Agriculture	Consultative Group on International Agricultural Research	$17 million per year

Canadian Policy Priorities at the Bretton Woods Institutions

The IMF and the World Bank are important partners for advancing Canada's own foreign and development policy interests and promoting Canadian core values of freedom, democracy and the rule of law. Participation in these important global organizations has several benefits. It extends Canada's reach and influence throughout the world by providing Canada a strong voice as a member and leading donor in these institutions.

Canadian Policy Priorities

The Government of Canada has four key priorities in its relations with the IMF and World Bank:

1. Improving governance and accountability

Canada has long been an advocate for strengthening governance and accountability at the IMF and World Bank. Both account for their performance to their members through the Boards of Governors, the Executive Boards and various committees of the Boards. They also report on their performance to members and the global public via annual reports. In our dialogue with the Fund and Bank, Canada sends a consistent and clear message to both of these institutions that they must continue to strengthen governance and accountability, both in their internal operations and in member countries.

The Bretton Woods Institutions Score High Marks for Accountability

The 2006 Global Accountability Index prepared by One World Trust, a non-governmental organization based in the United Kingdom, underscores the progress that the IMF and World Bank have made in enhancing its accountability mechanisms relative to other international organizations in the not-for-profit and private sectors. The index assessed 10 intergovernmental organizations (IGOs), including the IMF and World Bank, 10 international non-governmental organizations (INGOs) and 10 multinational enterprises (MNEs) in 4 accountability assessment categories: transparency, participation, evaluation, and complaint and response.

The World Bank emerged as one of only 3 IGOs to score above 50 per cent in 3 out of the 4 accountability assessment categories. In comparison, only 2 out of 10 INGOs and 2 out of 10 MNEs achieved the same result. Consequently, the World Bank placed ahead of Amnesty International, WWF International, Oxfam International and 5 other INGOs with respect to organizational accountability. The World Bank Group's accountability practices also placed ahead of those of leading MNEs such as Toyota Motor Corporation, Dow Chemical Company and Microsoft Corporation.

On average, IGOs fared best in the category of transparency. The IMF and World Bank were identified as 2 of only 9 international organizations that had implemented the index's benchmark of an organization-wide information disclosure policy (IDP). In contrast, only 2 out of 10 INGOs had implemented an IDP.

The Bretton Woods Institutions Score High Marks for Accountability *(cont'd)*

While the index reported generally poor performance from IGOs, particularly relative to the MNEs in the category of complaint and response, the World Bank Group's Inspection Panel was singled out as the exception. With the exception of World Vision International, the other 9 INGOs surveyed did not provide any high-level guidance to staff to handle complaints from affected communities.

With the exception of shortcomings in incorporating external stakeholders in high-level decision making, the IMF and World Bank were also distinguished from other transnational organizations in the private and not-for-profit sector in evaluation. The World Bank scored higher than all but one INGO and all MNEs, and the IMF scored higher than 7 of 10 INGOs and 9 of 10 MNEs.

The Fund and the World Bank scored lowest in participation, largely due to governance structures that give developing members less voting power.

In future reports, we will continue to monitor this index as well as other independent evaluations to assess improvements in the accountability of the Bretton Woods institutions.

The 2006 Global Accountability Index report is available at www.oneworldtrust.org.

2. Reforming the IMF to Strengthen the International Financial System

The IMF remains the central institution charged with fostering international financial stability. Its mission—to promote global prosperity and financial stability—remains as valid today as ever and its three broad lines of activity—surveillance, financial assistance and technical assistance—represent the best channels through which it can achieve its objectives.

However, over the past decade, it has become increasingly clear that in order to effectively and credibly fulfill its mission, the Fund must adjust to meet the rapidly evolving challenges of the international financial system. The IMF has been criticized for its policy advice, governance structure, economic surveillance and lending activities. Some key emerging market economies are highly under-represented at the institution relative to their global economic weight, while many poorer and smaller members have seen their relative voting power eroded over time.

Canada Is Leading IMF Reform

- Canada has led the drive to reform the IMF, working with the Group of Seven (G7) and Group of Twenty (G20) Finance Ministers to secure agreement on a two-stage reform process. The first-stage reforms, which consisted of quota increases for the four most under-represented emerging market economies (China, the Republic of Korea, Mexico and Turkey) as well as additional resources for African Executive Directors at the IMF, were approved by IMF Governors on the eve of the IMF/World Bank Annual Meetings in September 2006.
- Canada has continued to work within the G7 and G20 to build consensus for a broader second-stage package of reforms, including a quota formula fit for globalization that better reflects member countries' global economic weight, increased basic votes and strengthened IMF surveillance, which should be agreed to no later than the IMF/World Bank 2008 Annual Meetings. Given vastly diverging interests of IMF members, this will not be an easy task.
- Canada's leadership role on IMF reform was explicitly recognized at the February 2007 G7 Finance Ministers Meeting in Essen, Germany.

3. Improving Aid Effectiveness

Improving the effectiveness of aid delivery and better focusing assistance where it can best contribute to poverty alleviation is key to development progress. Within the World Bank, the goal of improving aid effectiveness has translated into practical aid policies that target financing to those countries that have demonstrated an ability to channel funding effectively to development.

However, mandates of the international organizations often overlap, leading to a duplication of efforts. This is exacerbated by inadequate coordination of effort, high transaction costs for countries and a reduction in the development impact of international organizations. The Paris Declaration on Aid Effectiveness has brought this issue to the top of the development agenda (more information on the Paris Declaration can be found on the Organisation for Economic Co-operation and Development website at www.oecd.org).

For its part, Canada continues to push all of the international organizations to improve their effectiveness through increased selectivity, clear priority setting, planning and managing for results, coordination and harmonization among development partners, responsiveness to client country priorities and efficient service delivery.

4. Promoting Sustainable Development

In 1987, the United Nations World Commission on Environment and Development published *Our Common Future*, a report that defines sustainable development as "development that meets the needs of the present without compromising the ability of future generations to meet their own needs." Canada recognizes that only sustainable development can relieve poverty, create equitable standards of living, satisfy the basic needs of all peoples, and produce sustainable economic development in the long run, and that the Bretton Woods institutions have an important role to play in achieving this end.

Canada's Focus in 2006

1. Improving Governance and Accountability

Strengthening Sanctions for Corrupt Practices

The **World Bank** is a leader among international institutions in resources committed to fighting fraud and corruption. Since 1996, anti-corruption activities have been integral components of the Bank's lending and technical assistance operations. Annual anti-corruption action plans have helped to increasingly mainstream anti-corruption in the Bank's internal procedures, as well as in its country strategies, country dialogue and assistance.

Increasing Accountability Through Evaluation

The Independent Evaluation Group (IEG)

The IEG is an independent unit within the World Bank. It reports directly to the Bank's Executive Board. IEG assesses what works and what does not, how a borrower plans to run and maintain a project, and the lasting contribution of the Bank to a country's overall development. The goals of evaluation are to learn from experience, to provide an objective basis for assessing the results of the Bank's work and to provide accountability in the achievement of its objectives.

Quality Assurance Group (QAG)

QAG is an internal unit reporting to Bank management. QAG's primary objective is to promote increased accountability by providing staff and managers with feedback on operational performance, identifying systemic issues affecting operational performance and identifying and highlighting skills and resources needed to ensure high-quality work.

Department of Institutional Integrity (INT)

The INT at the World Bank is mandated by the World Bank Group to investigate allegations of fraud and corruption in Bank Group operations as well as allegations of staff misconduct. The INT reports its findings to senior management, who in turn decide what measures should be taken. In addition, the INT assists in preventative efforts to protect Bank Group funds, and those funds entrusted to it, from misuse and to deter fraud and corruption in its operations. The work of an investigative unit aids the World Bank in ensuring that funds are used for their intended purposes, thereby contributing to the organization's core mission of promoting development and reducing poverty.

The Independent Evaluation Office (IEO)

The IEO at the IMF provides objective and independent evaluations on issues related to the IMF that are presented to the Executive Board. The IEO operates independently of IMF management and at arm's length from the IMF's Executive Board. It periodically assesses different IMF priority areas, for example, how the IMF gives advice on such issues as exchange rate and capital account policies, or more generally, how it structures its lending program conditionality.

The Bank does not conduct business with individuals and firms involved in corrupt practices. Over the past two fiscal years, 58 firms and 54 individuals have been debarred from receiving Bank contracts because of their involvement in corruption (338 since 1999). At the start of 2007, 144 firms and individuals were ineligible from benefiting from contracts under World Bank-financed projects. In 2006, Canada supported the World Bank's moves to strengthen its sanctions and voluntary disclosure policies in order to improve transparency at the Bank itself, use sanctions (i.e. debarment) for fraudulent practices, ensure safe channels for whistle-blowers, and provide more objective and transparent methods for assessing and mitigating corruption. Canada will continue to use its voice at the Bank to ensure the transparent and equitable application of these policies and will encourage all multilateral development banks to use common, consistent, and transparent criteria to examine possible misconduct.

When There Is a Problem

The **Compliance Advisor Ombudsman (CAO)** is an independent office that reports directly to the President of the World Bank Group regarding IFC and MIGA projects. The CAO does not intervene in Executive Board or project processes but has the independence to make recommendations that will be helpful in resolving disputes. The reports and recommendations of the CAO are public. Ultimately, the Office of the President is responsible for implementation of these recommendations. Controversial Canadian projects that have been evaluated by the CAO in 2006 include the Guatemalan Marlin mine owned by Canadian company Glamis Gold and the Dikilushi copper-silver mine in the Democratic Republic of Congo. Full reports on CAO recommendations on these and other cases can be found at www.cao-ombudsman.org.

The **Inspection Panel** was established in 1993 to address the concerns of people who may be affected by Bank projects and to ensure that the Bank adheres to its operational policies and procedures during design, preparation and implementation phases of projects. The Inspection Panel consists of three members who are appointed by the Executive Board for non-renewable periods of five years. Members are selected on the basis of their ability to deal thoroughly and fairly with the requests brought to them, their integrity and independence from Bank management, and their exposure to developmental issues and living conditions in developing countries. More information on the Inspection Panel and specific concerns before it can be found at www.worldbank.org/inspectionpanel.

Economic Governance

The **IMF** promotes good economic governance through enhanced surveillance; the promulgation of standards and codes of good practice in the fiscal, monetary and statistical areas; the provision of technical assistance to strengthen institutional capacity; and specific measures to address particular instances of poor governance. As at the World Bank, the IMF stresses the importance of country ownership of policies for improving governance. The IMF requires transparency and accountability in the management of public funds. Where poor governance affects macroeconomic performance, and particularly where it raises questions on whether Fund financing will be used effectively, IMF program conditions require members to improve governance and combat corruption in specific ways. The IMF has also strengthened policies to safeguard the use of IMF resources with regard to misreporting of information to the IMF. These measures have led to inquiries directed at central bank actions in a number of member countries.

To improve governance and accountability, Canada and other members have advocated the need to introduce a transparent, merit-based process for selecting the heads of multilateral institutions. Canada has worked within the IMF, World Bank, and international groupings such as the G7, G8 and G20 to advance this goal.

Governance and Anti-Corruption Strategy

In response to concerns raised by Canada and other members on the need to raise the profile of governance, including anti-corruption, over the past year, the World Bank has continued to make significant efforts to mainstream this issue into its own development agenda in a coherent, fair and effective manner. Its governance and anti-corruption strategy aims to establish a deeper engagement with partner countries and bilateral donors on governance and anti-corruption issues through a more rigorous treatment of these issues in Country Assistance Strategies. In February 2006, the World Bank and the IMF, together with the regional development banks, renewed their focus on combating corruption and formed a task force to develop the Institutional Framework for Preventing and Combating Fraud and Corruption. This framework was presented at the September 2006 Annual Meetings of the World Bank Group and the IMF.

Under its governance and anti-corruption strategy, the Bank is committed to: (1) intensify its work on capacity building, including public financial management, procurement and civil service reform; (2) ensure that governance concerns are integrated into the preparation of its projects and that, where the risk of corruption is high, its supervision, detection and enforcement are strengthened; (3) strengthen bilateral and multilateral partnerships to promote coordinated donor action; and (4) intensify engagement with the private sector in tackling corruption. The World Bank conducted extensive consultations on this framework in late 2006, including with the Canadian government, parliamentarians and civil society, with the aim of presenting a refined strategy to Governors at the spring meetings in 2007.

Canada recognizes that the World Bank has made good progress in understanding and addressing the challenges that weak governance and corrupt practices pose for the development process. However, Canada continues to press for further improvements in a number of areas:

- Policies governing World Bank involvement in countries where corruption is a problem must be clear, transparent, and consistent across the membership.
- Significant changes in country eligibility for World Bank Group assistance must be subject to Executive Board oversight.
- The Bank needs a clear "results framework," which can provide the basis for an independent evaluation of the effectiveness of its governance strategy over the next few years.
- The international community must be engaged in the fight against corruption. This means that international institutions and shareholder governments must ensure that their own operations also consistently meet high standards of integrity.
- One challenge for the Bank over the next several years will be to develop initiatives that build on the momentum associated with the United Nations Convention against Corruption in order to bridge the gap that currently exists between development and anti-corruption activities.

Budget Reform

Canada has been at the forefront of calling for reform to the World Bank and IMF's administrative budget and strategy development. The budget process needs to be better informed by a concise articulation of the institutions' broad strategies and expected key outcomes in the medium to long term. This strategic outlook should be consistent with both institutions' core competencies and comparative advantages and should take into account client demand and lending trends. We have also called for a clear statement of priorities that includes a discussion of how these priorities will further each of these institutions' strategies and competencies.

Last year, the Bank began a process to ensure that strategic direction, as established by the Executive Board, is considered as part of the budget cycle. Over the past several years, the IMF has demonstrated its commitment to follow best international practices for internal governance and to ensure the most effective use of resources. In 2006, the Fund developed a new output-based medium-term budgetary framework; reformed its employment, compensation and benefits framework; began to evaluate options for putting the Fund's income on a sounder financial footing; and set up a task force to review the Fund's risk management.

Transparency

Canada is among the most active members in urging the institutions to embrace greater transparency and adopt open disclosure policies. Originally institutions that shared few of the details of their deliberations and operations with the public, the Fund and Bank have recently expanded the materials that they disclose, to the point where they are among the most open of international institutions.

At the IMF, the policy for most kinds of documents is one of "presumed publication." In 2006, for example, 85 per cent of IMF Article IV surveillance reports were published (a step which requires the consent of the country concerned), while about 70 per cent of IMF policy documents were published. Publication of a policy paper that has been discussed by the Executive Board is typically accompanied by publication of a summary of Executive Directors' views during the discussion. The IMF recently published its second annual report on the implementation of its transparency policy, which provides factual information on publication rates by type of document, lags between Executive Board discussion and publication, recourse to deletion and publication behaviour of member countries.

The World Bank has made considerable progress toward greater transparency by increasing the amount of its documentation made available to the public. Like the IMF, the Bank releases minutes of its Executive Board meetings. However, in the interests of promoting candid and effective discussion at the Board, neither institution releases transcripts of the meetings or attributes remarks to individual Executive Directors by name. Canada supports this policy.

2. Reforming the IMF to Strengthen the International Financial System

Over the past year, Canada has taken a leadership role on the important issue of reforming the governance and operations of the IMF. Canada was instrumental in building support among IMF members for a two-stage approach to reform. Canada's efforts within the IMF, and G7 and G20 groups of Finance Ministers, helped secure agreement among member countries on the first-stage reforms on the eve of the IMF/World Bank Annual Meetings in September 2006. IMF Governors agreed to provide a quota increase for the four most under-represented emerging market countries (China, the Republic of Korea, Mexico and Turkey) as well as additional resources for the two African Executive Directors' Offices at the IMF. Governors also set the target of achieving agreement on a broader range of second-stage reforms, including the revision of the IMF's formula for determining member quotas, an increase in the level of basic votes[4] and the possible introduction of a new lending instrument, no later than their Annual Meeting in the fall of 2008.

Quotas determine the amounts that countries can borrow from the Fund in cases of balance of payments or budgetary problems and the resources that countries in good financial health can be asked to provide the Fund to help other members. They are also the major factor determining countries' voting power at the Fund. Proper alignment of quotas with countries' economic and financial weight in the global economy is essential to the Fund's legitimacy as an international institution. Legitimacy, in turn, is key to ensuring that the Fund can serve as an appropriate forum for members and that the Fund's policy advice is heeded.

Given that there will be winners and losers in any realignment of IMF quotas, and given that quota reform requires ratification by countries representing 85 per cent of the Fund's voting power, securing agreement on quota reform will prove challenging. Canada is a strong advocate of a formula fit for globalization—a transparent quota formula that more clearly recognizes a country's degree of global economic integration and global economic weight.

The IMF's legitimacy and effectiveness also require a stronger voice for low-income countries. Accordingly, Canada supports at least a doubling of basic votes and an amendment to the IMF Articles of Agreement that will introduce a mechanism to safeguard the share of basic votes in total voting power against erosion in the future. Canada is also sensitive to the special challenges facing the offices of the two African Executive Directors at the IMF, who each represent constituencies of more than 20 countries. We strongly supported the first-stage initiative to increase resources for their Offices to improve their ability to represent African countries in the institution, many of which are involved in IMF lending and technical assistance programs.

Strengthening Surveillance

Canada supports a strong and effective surveillance function at the IMF as the key element of its mandate to foster global financial stability. The IMF's surveillance function is established in Article IV of its Articles of Agreement, which charge the institution with promoting the stability of the international system. The aim of IMF surveillance is to maintain a constructive dialogue with

[4] When the Bretton Woods institutions were founded in 1945, members recognized the need for economic weight to be the predominant determinant of voting power. However, 11 per cent of voting power was distributed equally among all members (these shares are referred to as "basic votes") to recognize the principal of equality of states. Over time the share of basic votes has fallen from 11 per cent at both institutions to 2.1 per cent at the IMF and 2.8 per cent at the World Bank.

members aimed at helping them identify and pursue policies that support their economic growth and prosperity, and in particular avoid macroeconomic or exchange rate policies that have negative spillover effects on the global economy. Canada experienced the benefit of IMF expertise first-hand in the early 1990s, with their candid assessment of our economic challenges. We believe that other countries can also benefit from such an approach.

Given the emerging market crises of the 1990s and the current scale of global imbalances (current account disparities, savings and investment mismatches and concerns that foreign reserve accumulation by some emerging markets has been excessive), in recent years the IMF has strived to strengthen and revitalize its surveillance. Indeed, a key element of the IMF's Medium-Term Strategy is to improve the Fund's analytic understanding of economic developments in individual member and the global economy, the candour of its assessments of its members' policies, and the persuasiveness of Fund policy advice.

In 2006, the IMF introduced special multilateral consultations on global imbalances with key participants in the global economy, while the Executive Board is considering ways of increasing the objectivity and effectiveness of bilateral Article IV surveillance. Some important progress has been made, reflecting a consensus among the membership on the importance of the IMF's surveillance function. However, some differences of opinion remain among members over whether the IMF can be more effective through an approach that emphasizes compliance by all countries with the existing international consensus on sound policies, or through an approach whereby the IMF quietly encourages members to pursue better policies through dialogue and by adopting a role of "trusted advisor." Canada will continue to push for stronger surveillance of monetary, fiscal, financial sector and exchange rate policies, with greater attention to the spillover effects of these policies on the global economy. In our view, this should be reflected in a revised framework governing the implementation of surveillance.

Strengthening IMF Finances

Canada believes that a strong IMF is critical to ensure long-term global financial stability. Financial conditions in emerging markets have improved considerably over the last five years, and affordable access to international capital has reduced many emerging market countries' reliance on Fund resources. Since the IMF finances its administrative expenditures through a margin between the interest rate at which it borrows and the interest rate at which it lends, the recent decline of lending combined with the early debt repayment by major borrowers has reduced Fund income to historically low levels. The IMF is facing an income shortfall and will run a budget deficit for FY2007 of about SDR 69 million, with increasing deficits expected in the following three years (up to about SDR 245 million in FY2010).

The Fund's low credit environment is expected to persist over the medium term. In response, the Managing Director formed an independent Committee of Eminent Persons to study the Fund's financing model and provide recommendations for mitigating the expected shortfalls in annual income. The committee's report, which was released on January 31, 2007, identified several options to strengthen income, including a more aggressive investment strategy and the sale of a portion of the IMF's holdings of gold. These options will be studied by Fund staff and debated at the Executive Board throughout the coming year.

3. Improving Aid Effectiveness

Improving IMF/World Bank Collaboration

Canada continues to promote increased collaboration between the World Bank and IMF in several key areas.

- Increased collaboration in situations where one institution has an active program while the other does not, but could still provide valuable policy advice. In particular, we urge the Bank to ensure that the Fund be engaged when country dialogue focuses on macroeconomic issues, including in countries in which the IMF does not have an active program. In cases such as these, we are less concerned with overlaps in Bank and Fund programs as with the risk of significant gaps where neither institution is effective.
- The Bank's comparative advantage on poverty reduction issues has led to the inclusion of its Poverty and Social Impact Analyses (PSIAs) in IMF-supported programs in low-income countries under the Poverty Reduction and Growth Facility (PRGF). The effectiveness of PRGF arrangements has been significantly improved by the incorporation of information from the PSIAs. We would like to see this practice extended to other areas of IMF work, such as Article IV surveillance exercises. In this area, poor governance clearly undermines many developing countries' macroeconomic outlook. We would therefore support increased consideration of governance issues as part of the policy discussions of Article IV documents. As well, with the increased focus on financial sector reform in Fund surveillance exercises, it will be critical to incorporate the Bank's considerable expertise in this area to ensure effective surveillance.
- Both institutions need to ensure that administrative burdens "on the ground" are minimized. They should also be sensitive to social and political developments and support the use of joint missions and a division of labour that minimizes the unnecessary duplication of work and the time spent negotiating Bank and Fund programs.
- Both the Bank and Fund need to closely collaborate to enhance their commitment to promoting global implementation of international standards to combat money laundering and terrorist financing.

In March 2006, the Managing Director of the IMF and the President of the World Bank commissioned a six-member External Review Committee to examine areas of World Bank/Fund collaboration and propose improvements. The committee is scheduled to complete its report in early 2007.

More Focused Conditionality

Canada supports more focused conditionality at both institutions. The IMF and World Bank have both conducted conditionality reviews in the recent past. These reviews were initiated in response to concerns that the scope and complexity of conditionality were undermining country ownership of their programs and weakening the effectiveness of reform efforts. While these reviews have led to improvements in the design of loan conditionality, particularly with respect to supporting national policy priorities elaborated in Poverty Reduction Strategy Papers (PRSPs), more can be done to ensure conditionality reinforces PRSP objectives.

Canada supports the IMF's efforts to strengthen the effectiveness of its lending programs by streamlining and better focusing conditionality to foster stronger country ownership. In recent programs, the Fund has focused its conditionality on tax policy, public expenditure management and financial sector strengthening, and has reduced the number of conditions related to social sectors, public enterprise reform and the business environment, given that these areas are beyond the Fund's mandate and expertise.

Canada supports the shift at the Bank from ex ante conditionality that links the drawdown of funds to future performance to an ex post approach linking drawdowns to past performance. This is consistent with the stress that Canada places on the need for greater accountability and a stronger results focus. Similar to the IMF, the Bank is increasing the focus of its conditionality in its areas of expertise—public expenditure management, governance, regulatory framework strengthening and the legal sector.

The type of lending also has an impact on conditionality—investment loans have few policy conditions while development policy loans, by their nature, tend to have more. In November 2006, the World Bank presented a progress report on the implementation of good practice principles for the application of conditionality, which reinforce the importance of country ownership, harmonization, customization, criticality, transparency and predictability. The review concluded that there has been some progress in ensuring that the Bank's conditionality policies adhere to these good practice principles though it recognized that greater progress is possible.

At both institutions, there has also been a significant decline in specific conditionality related to the privatization of state enterprises over the last decade, in favour of conditionality focused on improving regulatory environments.

Overall, these efforts have been constructive. However, it is important to recognize that these institutions cannot dispense with conditionality entirely. At the IMF, conditionality is still needed to address the underlying causes of economic crises. And at the Bank, strong financial controls are clearly needed to minimize the risk of funds being misappropriated due to weak governance. However, even where conditions are necessary, country ownership and commitment are critical. Indeed, our long-term goal is to build capacity in these countries and strengthen their internal systems. This is the best way to ensure that conditionality is kept at a minimum.

Building Statistical Capacity

Recognizing that strong statistical systems are essential for accountability, evidence-based policy development and the assessment of aid effectiveness, Canada has consistently advocated that the Bretton Woods institutions focus more on building statistical capacity in developing and emerging market countries. Statistics are needed to form policy and measure results; to conduct research and shed empirical light on evolving issues; to aid in public understanding and decision making; and to foster informed debate on events shaping and touching everyone. For developed countries, good statistics are also important to assess the need for development assistance and the measurement of achievements resulting from such assistance, including the achievement of the Millennium Development Goals (MDGs).

IDA's Results framework

To ensure that IDA resources are used effectively, the fourteenth replenishment of IDA (IDA14) introduced a two-tiered results measurement system (RMS) to track progress in "big picture" outcomes at the country level and to monitor IDA's efforts to produce better results. The IDA14 RMS interactive website reports on the RMS indicators, provides access to country and regional data and supports quick charting and mapping tools. www.worldbank.org/data.

While many IDA countries are making progress in development, most are not likely to meet some MDGs, particularly those relating to human development. More systematic monitoring of IDA countries' progress has brought two problems to the fore: data gaps in critical areas such as infrastructure, and the enormous effort, resources and cultural change that are required to build country capacity to collect reliable statistics on a regular basis. Statistical capacity is an area of recognized Canadian expertise and excellence. High-quality national statistics are an important public good for national governments and donor agencies because they support better evidence-based decision making and strengthen the PRSP process and the results agenda.

The World Bank's Country Statistical Information Database confirms that the statistical capacity of many low-income countries requires significant strengthening. The World Bank has developed a number of instruments to help address this shortcoming. The Trust Fund for Statistical Capacity Building supports the implementation of national strategies for the development of statistics. Early in 2007, the Canadian International Development Agency approved a contribution of $6 million to support the Bank's work in this area.

4. Promoting Sustainable Development

Debt

Canada is strongly committed to reducing the debt burdens of the most heavily indebted poor countries to sustainable levels. Our participation in both bilateral and multilateral debt relief initiatives has helped recipient countries redirect freed-up resources to poverty reduction initiatives to improve the lives of their citizens and reach their long-term development goals.

To reduce the external debt burdens of the world's poorest countries, Canada delivers debt relief through three initiatives:

- The Heavily Indebted Poor Countries (HIPC) Initiative: Launched in 1996, the HIPC Initiative was the first debt reduction strategy that included both bilateral and multilateral debt cancellation with an aim to reduce the debt burdens of eligible countries to sustainable levels.
- The Canadian Debt Initiative (CDI): Implemented in 1999 and updated in 2001, the CDI increases the bilateral debt relief provided through the HIPC Initiative to 100 per cent. Countries in the HIPC process receive 100 per cent debt cancellation on their debt payments and, once they complete the HIPC Initiative, Canada cancels 100 per cent of the remaining debts.
- The Multilateral Debt Relief Initiative (MDRI): Implemented in 2006, the MDRI (formerly the G8 Debt Relief Proposal) cancels 100 per cent of eligible debts owed to the IMF, IDA and the African Development Fund by countries that have completed the HIPC Initiative.

The G7, IMF and World Bank have all provided significant debt relief. Canada has been at the forefront by cancelling over $1 billion in bilateral debt of HIPCs since 2000 (see Table 2).

Table 2
Total Canadian Debt Relief to HIPCs Through the CDI, Paris Club and HIPC Initiative January 1, 2000 to December 31, 2005

(C$ millions)

Completion Point Countries

Country	Total Debt Relief to Date[4]	Outstanding Debt to Canada
Benin	0.4	0
Bolivia	11.1	0
Cameroon[1]	454.3	0
Ethiopia	0.4	0
Ghana	19.1	0
Guyana	3.1	0
Honduras	26.2	0
Madagascar	35.7	0
Rwanda	4.6	0
Senegal	5.4	0
Tanzania	80.1	0
Zambia	94.3	0
Subtotal	**734.7**	**0**

Reforming Countries in the Interim Period

Country	Total Debt Relief to Date	Outstanding Debt to Canada
Congo, Dem. Rep. of	78.0	46.8
Congo, Republic of[2]	25.1	43.1
Haiti	0.0	2.3
Subtotal	**103.2**	**92.2**

Pre-Decision Point Countries Excluded From the CDI

Country	Total Debt Relief to Date	Outstanding Debt to Canada
Côte d'Ivoire[3]	128.5	145.5
Sudan	0.0	10.8
Subtotal	128.5	156.3
Total	**966.4**	**248.5**

1 Debt relief for Cameroon includes relief granted in 2006.

2 Debt relief for the Republic of Congo is from a Paris Club “Naples treatment.” It is not receiving CDI debt relief due to poor public financial management.

3 Debt relief for the Côte d’Ivoire is composed of Paris Club relief under the original HIPC framework as well as previous and subsequent Paris Club debt treatments. It does not include relief under the enhanced HIPC framework or the CDI.

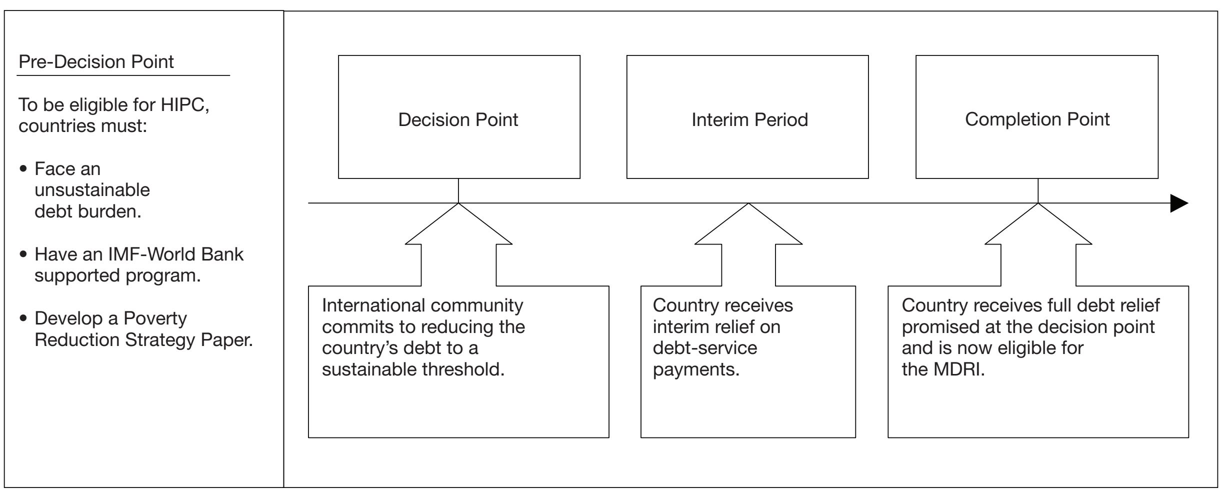
4 Debt relief figures include amounts due in 2000 that were not written off until after the end of 2000.

In April 2006, Cameroon graduated from the HIPC process, at which time Canada forgave all of its remaining debt ($221 million). In total, Canada has forgiven $454 million of debt owed by Cameroon since 2000. Haiti's recent progress in economic and political stability facilitated its entrance into the HIPC process in November 2006, and it will receive 100 per cent debt cancellation from Canada once the process is completed. Finally, in December 2006, Sierra Leone graduated from the HIPC process.

Côte d'Ivoire, the Republic of Congo and Sudan still have debts with Canada. Once these countries show a committment to good governance and once Côte d'Ivoire and Sudan have entered the HIPC process, Canada will cancel their debt-service payments and, ultimately, all debts owed to Canada.

To reduce debt levels to a sustainable level, the HIPC Initiative requires bilateral creditors to forgive up to 90 per cent of the eligible bilateral debts owed by HIPCs. The World Bank and IMF also deliver debt relief through the HIPC process, and donor countries provide resources to these institutions to help them do so. To date, Canada has provided $281.4 million to the HIPC Trust Fund, which is managed by the World Bank, and $65 million to the IMF for HIPC debt relief.

Chart 4
The HIPC Initiative Timeline



MDRI Implementation

The Multilateral Debt Relief Initiative (MDRI) provides even deeper debt relief to HIPC graduates, cancelling debts owed to IDA, the IMF and the African Development Fund. This debt relief helps the world's poorest countries reach the United Nations Millennium Development Goals, as the freed-up resources previously used to service large debts can be redirected to investments that contribute to poverty reduction.

In 2006, Canada paid $16.6 million to the IMF in fulfillment of our obligations under the MDRI. In January 2007, Canada made its first payments of $10.4 million to the African Development Bank and $35.3 million to IDA.

Environment

Sustainable development cannot be achieved without making great progress in ensuring sustainable environments. Canada's support for sustainable environment initiatives at the Bretton Woods institutions has been reinforced by our participation in the G8 process. At the 2005 Gleneagles Summit, Canada, along with the other G8 leaders, called on the World Bank and regional development banks to develop an investment framework for clean energy and sustainable development in developing and emerging markets. The framework is intended to be a vehicle to accelerate investment to meet energy demands associated with growth and poverty alleviation in an environmentally sustainable way. The World Bank released a progress report on this framework, which outlines the key elements of a strategic work program at the 2006 Annual Meetings.

Canada endorses framework as a potential approach to addressing the interconnected areas of energy access, mitigation and adaptation. In line with our strong ties to the Caribbean through our constituencies at the Bretton Woods institutions, Canada strongly supports the Bank' s plan to expand analytical work to develop screening tools to assess the nature of climate risks to development projects, build the capacity of institutions and communities to better cope with the risk of natural disasters, and support the development of new and more innovative risk management tools.

Global Environment Facility

Negotiations for the fourth replenishment of the Global Environment Facility (GEF) concluded at the end of August 2006, with donors agreeing to a US$3.1-billion replenishment, the largest replenishment in GEF history. Canada maintained its 4.3-per-cent share of donor contributions to the GEF replenishment, agreeing to provide the equivalent of C$158.9 million over four years.

The World Bank is an implementing agency of the GEF, which supports the implementation of the United Nations conventions on biodiversity, climate change, persistent organic pollutants, land degradation and ozone depletion in developing countries, in addition to addressing international waters issues. Since its creation, the GEF has become the single largest source of funding for global environmental issues. In 2005, results of an external evaluation of the GEF concluded that the facility has achieved significant positive environmental benefits in the areas of biodiversity, climate change, international waters and ozone depletion. Canada's contribution to the GEF accounts for about 25 per cent of the Canadian International Development Agency's total spending on the environment.

Natural Disaster Risk Reduction and Post-Disaster Recovery

The World Bank finances reconstruction following natural disasters in middle-income and poor countries. In 2006, the Bank's Independent Evaluation Group (IEG) assessed the Bank's post-disaster assistance portfolio. The IEG recommended that the Bank help countries better prepare for and mitigate future disasters that can negatively affect long-term development by supporting disaster risk reduction (the spectrum of activities from preparedness to reconstruction that limit the impact of disasters on human populations). In response, the Bank set up the Global Facility for Disaster Reduction and Recovery, a new partnership with the United Nations to support the integration of disaster risk reduction into the development plans of highly vulnerable disaster-prone countries. The facility aims to "disaster proof" the Millennium Development Goals (MDGs). Canada commends the Bank for evaluating its disaster assistance portfolio and supporting countries in proactively protecting their long-term development projects by mainstreaming disaster risk reduction into their planning.

In 2006, the World Bank established a pilot Caribbean Catastrophe Risk Insurance Facility to provide risk insurance against natural disasters for the small Caribbean countries, including countries in Canada's IMF-World Bank constituency. Canada will be the largest donor to this facility, which should be up and running for the 2007 hurricane season.

Private Sector Development

Canada has been a long-standing advocate of the need for the Bretton Woods institutions to support private sector development, including by strengthening legal, regulatory and trade policies to improve investment climates and by engaging with private sector partners. The International Finance Corporation (IFC), the private sector arm of the World Bank Group, is a key institution in this regard. Its role is to promote economic development by encouraging private investment, both foreign and domestic, in developing member countries. It is widely acknowledged that strong private sector involvement in development efforts is necessary in order to mobilize sufficient financing to meet the Millennium Development Goals (MDGs). The IFC is well placed to play an important role in facilitating private sector investment in MDG-related sectors throughout the developing world.

The IFC is the largest multilateral source of loan and equity financing for private sector projects in the developing world. The IFC finances and provides advice for private sector ventures and projects in developing countries in partnership with private investors and, through its advisory work, helps governments create conditions that stimulate the flow of both domestic and foreign private savings and investment. It focuses on promoting economic development by encouraging the growth of productive enterprise and efficient capital markets in its member countries.

Canada has consistently stressed the need for the IFC to focus its activities on the World Bank Group's core mandate of poverty reduction and to expand its operations in poor countries. In 2006, the IFC substantially increased its efforts in tracking the development results of its projects. A new system launched in FY2006 enables the IFC to systematically monitor results throughout the project cycle and to better assess overall development impact. Development outcome is rated on a six-point scale and is based on four underlying performance indicators: financial, economic, environmental and social, and private sector development impact. Preliminary results show that financially well-performing projects have the highest development impact either through their environmental and social benefits or as a result of private sector development.

The IFC has increased its focus in frontier countries, many of which are among the poorest in the world. However, it could do a much better job in expanding its operations and strengthening the development impact of its operations in these countries. Going forward, it plans to increase its technical assistance and advisory services in order to improve the development outcome of its projects.

International Finance Corporation Adoption of New Performance Standards

To ensure that its environmental and social standards remain relevant to a rapidly evolving marketplace, the IFC undertook an integrated review process to update its Safeguard Policies, Policy on Disclosure of Information, and Environmental Health and Safety Guidelines. The review involved a broad consultation process with stakeholders around the world, including governments, clients and partners, and representatives of civil society.

The outcome, approved by the Executive Board in February 2006, is a new policy framework for managing environmental and social risks as well as a new Disclosure Policy. New Sustainability Policy and Performance Standards outline the IFC's roles and responsibilities in ensuring project performance in partnership with its clients.

Canada was an active participant in the consultation process undertaken in the run-up to the adoption of these new policies and standards. Canada supports the direction that the IFC has taken in implementing project safeguards. However, there remain areas that could be strengthened and where Canada will continue to closely monitor the implementation of this policy.

- The new Performance Standards give more decision-making and oversight responsibility to the IFC, often in controversial areas. However, with this added responsibility will come greater accountability and the need for increased transparency to ensure that the IFC is fulfilling its role. Going forward, the IFC must be held to this higher level of accountability and transparency.
- The new Performance Standards also adopt a "cradle-to-grave" approach for businesses. This approach has the added possible benefit that it will instill the skills and expertise within the corporate culture of the IFC's partner companies, so that for future investments, performance standards are met, even without IFC involvement. This is a worthy goal, but it will mean added responsibility to ensure appropriate supervision in all of a project's aspects.
- It will be critical to closely monitor resettlement issues, particularly the treatment of informal settlers in countries where there is a lack of governance structures, such as judiciary and land registry systems.

Gender Equality as Smart Economics

Gender equality is an important crosscutting theme throughout Canada's development programming. Since gender issues remain an area where more work is needed, Canada is encouraged by the World Bank's renewed attention and efforts to advance women's economic empowerment to achieve growth, poverty reduction and meet the MDGs. We believe that the Bank has the potential to play a leading role in support of gender equality in the economic sectors. Canada has worked with the World Bank in recent years to plan for gender quality results and monitor their achievement across Bank programming.

At the 2006 Annual Meetings in Singapore, the World Bank Group President announced the four-year, US$24.5-million Gender Equality as Smart Economics—A World Bank Gender Action Plan to enhance women's economic power in key economic sectors in the developing world as a way to promote shared growth and accelerate progress towards gender equality and women's empowerment. To reinforce the importance Canada attaches to this work, the Canadian International Development Agency recently announced a C$1-million contribution to this action plan.

Canadian Constituency Voting Record at the IMF and World Bank

Since most decisions at the Fund and Bank are taken on a consensus basis, formal votes by Governors and the Executive Board are rare. Canada attempts to influence the development of policy proposals before they are brought to the Board (through informal discussion with staff and management) or to influence other members of the Executive Board before or during the course of Board deliberations. In 2006, the Executive Director representing the constituency that includes Canada, Ireland and the Caribbean did not support the recommendations put forward by management on every issue put before the Board.

- In March 2006, the IMF Executive Board considered the issue of Zimbabwe's voting rights at the IMF and the withdrawal of eligibility to borrow from the IMF. The suspension of voting rights and eligibility to borrow had occurred as a result of Zimbabwe's arrears to the IMF, reflecting non-payment of previous borrowing from the Fund. Canada's Executive Director did not support proposals to restore voting rights and borrowing eligibility, reflecting concern over Zimbabwe's continued destructive economic policies and lack of cooperation with the IMF and other members of the international community. The proposed decisions did not receive the required level of support at the Board and did not pass.
- In July 2006, the Republic of Congo requested a waiver on a condition of its Poverty Reduction and Growth Facility program with the Fund. The government had purchased several aircraft, financing the purchase at terms that failed to observe a continuous performance criterion on the contracting of medium- and long-term non-concessional debt. The Executive Director representing Canada abstained from the proposed decision, citing the aircraft financing as well as persistent shortcomings in state-owned enterprises.
- In June 2006, Canada's Executive Director at the World Bank abstained on two IFC investments, one in Stomana II in Bulgaria and the other in Industrial Union of Donbass in Ukraine, due to the policy concern of the expansion of permanent capacity in the global steel industry and the implications of oversupply.
- In August 2006, Canada's Executive Director opposed the IBRD/IFC proposal for a sub-national development program based on several key concerns regarding donor coordination, capacity building and the IBRD moving into an area better addressed through the IFC. The Executive Director requested an evaluation of the pilot at the end of its three-year timeframe, before a deeper and more sustained engagement with sub-nationals could be supported, particularly given the recognition that it is too early to evaluate the effectiveness of sub-national lending without sovereign guarantees.
- The Emergency Municipal Services Rehabilitation Project II in the West Bank and Gaza went to the Board in December 2006. Due to the possibility of indirect benefit for the Hamas-led Palestinian Authority, and Canada's legal and foreign policy position, the Executive Director representing Canada abstained on this project.

Managing Canada's Priorities at the Bretton Woods Institutions

Governance and Accountability

Canada is the eighth largest member of the IMF and the sixth largest shareholder at the World Bank. Membership in the two institutions gives Canada an important voice in the two leading international institutions devoted to promoting international financial stability and poverty reduction. Voting power at both institutions is mainly a function of the relative economic strength of individual members (which reflects their ability to contribute resources to the institutions). A small share of a member's voting power is also determined by "basic votes," which are distributed equally among all members in recognition of the equality of states. Canada's voting power is 2.9 per cent at the IMF and 2.78 per cent at the World Bank.

The IMF and World Bank are owned by their member countries, with their managements accountable to the membership. The Board of Governors, on which all member countries are represented, is the highest authority governing these institutions. The Minister of Finance is Canada's representative on the Board of Governors of both of these institutions. The Minister exercises influence at these institutions through his statements at the spring and fall meetings of the International Monetary and Financial Committee of the Board of Governors of the IMF, and Development Committee of the Boards of Governors of the World Bank and IMF; his plenary statement at the IMF and World Bank Annual Meetings; votes on various policy and administrative issues; and periodic meetings with the heads of the institutions.

Governors delegate decision making for a wide variety of day-to-day operations, policy and administrative matters to the 24-member Executive Board of each institution. Given that these Boards represent all of the institutions' 184 members, countries typically group themselves into constituencies, often with several countries represented by one Executive Director. On the Executive Boards of the two institutions, Canada is a member of a constituency that also includes 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 World Bank's Executive Board, Canada's constituency mirrors that of the IMF, but also includes Guyana. Governors representing the countries sharing our constituencies at these institutions elect Executive Directors every two years, usually based on a nomination made by the Canadian Governor. Mr. Jonathan Fried was elected to represent our constituency at the IMF in April 2006. Mr. Samy Watson was elected to represent our constituency at the World Bank in September 2006. The Minister of Finance and senior officials from the Department of Finance consult regularly with the Executive Directors on a range of IMF and World Bank issues.

Outreach Initiatives

In October 2006, the Minister of Finance met with civil society representatives to discuss their views on key issues involving the Bretton Woods institutions. As well, officials from the Department of Finance met with parliamentarians in October 2006 to brief them on Canada's relationship with the Caribbean within our constituencies at the Bretton Woods institutions. Officials also consulted with civil society on a broad range of issues, including the format and content of this report.

Over the course of a year, Canada's Executive Directors at the IMF and World Bank meet with a variety of stakeholders, including governmental and non-governmental organizations and those pursuing business opportunities at the respective institutions, who wish to discuss issues falling within the mandates of the institutions, or to exchange views on developments in member countries.

In 2006, visitors to the IMF Executive Director's Office, in addition to routine visits by government officials of Canada's constituency, included: individuals from the Global Organization of Parliamentarians Against Corruption to discuss the Fund's role in countering corruption; a number of non-governmental organizations, including Results-Résultats Canada, Trocaire (Ireland) and ActionAid (United States and United Kingdom) to discuss aid flows in low-income countries with Fund programs; and the Advisory Committee for the "Taking Responsibility" project—a Jamaican non-governmental organization established to discuss the economic development of Jamaica. In addition, the Executive Director's Office undertook a program of outreach to educational institutions, including presentations on the IMF to students from Queen's University and the National Defence Staff College.

In 2006, the World Bank Executive Director's Office met with members of the House of Commons Committee on Foreign Affairs and International Development, as well as representatives from Canadian and international civil society, including Results-Résultats Canada, Oxfam Canada, ActionAid International, the Halifax Initiative, Inclusion International, Gender Action, the Social Justice Committee of Montreal, the Bank Information Center, Environmental Defense, the Micronutrient Initiative and DATA, to discuss a variety of development policy issues. Representatives from Queen's University and the Commonwealth Secretariat also met with the Canadian Executive Director.

The Department of Finance coordinates Canadian policy advice on Fund and Bank policy issues and Canada's operational interests at these institutions. It consults closely with other government departments and agencies, particularly the Bank of Canada, the Canadian International Development Agency (CIDA) and the Department of Foreign Affairs and International Trade, which play a critical role. Bank of Canada Governor David Dodge is Canada's Alternate Governor at the IMF; and CIDA President Robert Greenhill is Canada's Alternate Governor at the World Bank. Finance officials testify before relevant committees of the Parliament of Canada and meet with representatives of Canadian non-governmental organizations on a regular basis.

Within the Department of Finance, the International Trade and Finance Branch is responsible for conducting analysis and preparing advice on the policy issues and specific country programs that are brought before the Executive Boards.

Members of the Executive Director's Office

IMF

Executive Director	Jonathan Fried (Canada)
Alternate Executive Director	Peter Charleton (Ireland)
Senior Advisor	Paul Jenkins (Canada)
Senior Advisor	Murna Morgan (Caribbean)
Senior Advisor	Jean-François Perrault (Canada)
Advisor	Shawn Ladd (Canada)
Advisor	Yvette Alvarez (Caribbean)
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 jfried@imf.org cbyrne@imf.org

World Bank

Executive Director	Samy Watson (Canada)
Alternate Executive Director	Ishmael Lightbourne (Caribbean)
Senior Advisor	Terry Winsor (Canada)
Senior Advisor	François Pagé (Canada)
Senior Advisor	Brendan Ryan (Ireland)
Senior Advisor	Cal MacWilliam (Canada)
Advisor	Sharmila Prakash Khare (Canada)
Advisor	Timothy Antoine (Caribbean)
Executive Assistant	Monique Piette
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 swatson1@worldbank.org mpiette@worldbank.org

Membership Benefits

As a major trading nation, Canada benefits from a strong and stable global economy and 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. As these demands are constantly shifting with the evolution of the international economy, Canada makes a difference by having a strong voice in the development of the international financial architecture. In particular, Canada influences how the Fund approaches crisis prevention and resolution, particularly through its surveillance activities and the design of its lending and poverty reduction facilities.

In turn, the IMF, through its 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, the Bank of Canada and other government departments and agencies. If Canada were to experience severe balance of payments difficulties, it would have the right to draw on IMF financial assistance.

The 2006 annual Article IV consultations between the IMF and Canadian officials concluded in May, with the IMF staff and Executive Board concluding that Canada's strong macroeconomic framework supported another year of strong economic performance. Staff noted that the May 2006 budget contained welcome commitments to reduce public debt, contain expenditure growth and lower the tax burden, including through a number of tax cuts aimed at boosting incentives to work, save and invest. Consultations for the 2007 Article IV exercise concluded in January 2007, following the release of *The Economic and Fiscal Update*, and staff welcomed the Update's emphasis on fiscal prudence.

Preliminary Conclusions of the IMF Staff Assessment of the Canadian Economy and the Government of Canada's Economic Policies

1. ***The strong performance of the Canadian economy appears likely to continue, notwithstanding some recent slowing in growth***. Over the last year the economy has remained close to potential, as robust domestic demand has offset weakness in net exports from past currency appreciation, and the unemployment rate dipped to a 31-year low. Looking forward, resilient domestic demand and a diminution in the drag from the external sector—even in the face of the recent U.S. slowdown—will likely generate a recovery in growth to around 2¾ percent by mid-2007, broadly in line with potential, with inflation staying at about 2 percent.
2. ***External factors and the questions that surround productivity growth tilt risks to activity to the downside, while those related to inflation are smaller and more balanced.*** Although strong household and corporate balance sheets suggest that domestic demand could surprise on the upside, a larger-than-anticipated slowing of activity in the United States, especially in the auto sector that has particularly significant spillovers for Canada, represents a key downside risk to growth.
3. ***The Bank of Canada has adroitly balanced these competing risks, and has appropriately left rates on hold since May.*** While much will depend on incoming data, the current stance appears apposite given projections that headline and core inflation will remain around the middle of the target range, broadly symmetric inflation risks, approximately neutral real short-term interest

Preliminary Conclusions of the IMF Staff Assessment of the Canadian Economy and the Government of Canada's Economic Policies *(cont'd)*

rates, well-anchored inflation expectations, and moderate wage pressures. Given its success, we welcome the recent decision to leave the inflation targeting framework unchanged, albeit with somewhat greater flexibility regarding the inflation horizon, while at the same time continuing to explore the possibility of future improvements.

4. ***The financial sector is well positioned to cope with a turning of the global credit cycle.*** Bank profitability and capital are high by historical (and, for the latter, international) standards and risks from the housing market are more limited than in other cyclically-advanced countries. At the same time, against a backdrop of a rapidly transforming global financial industry, there could be scope to improve financial sector efficiency and innovation by reducing regulatory thresholds to bank restructuring, as well as by moving toward establishing a national securities regulator.
5. ***We welcome the Fiscal Update's focus on fiscal prudence.*** This includes planned debt reduction of C$3 billion a year, the intention to allocate unanticipated surpluses to further lower the debt burden, and the advancement of the commitment for reducing the federal debt ratio to 25 percent of GDP by a year to FY 2012–13. Given spending pressures that will begin to build from population aging, long-term fiscal sustainability requires a steady and significant decline in debt in coming decades, as well as further steps to contain the growth of public health spending. The new objective to eliminate general government net debt by 2021 appropriately highlights the joint role of public pension plans and provincial—territorial governments in achieving a sustainable fiscal position, and could be usefully complemented by publishing a regular assessment of the long-term fiscal outlook.
6. ***The government's intention to lower the tax burden is appropriate.*** The modest fiscal space after planned debt reduction would most usefully be used for growth enhancing cuts in personal and (in particular) corporate marginal effective tax rates. We welcome the government's commitment to using interest savings from debt reduction to lower personal income taxes and its objective of achieving the lowest marginal effective tax rate on new investment in the G-7. Marginal income tax rates are high by international standards, suggesting that reductions in this area would provide larger efficiency gains than further cuts to the Goods and Services Tax (GST). Indeed, with population aging implying a steady lowering in the ratio of workers to the overall population, there is a case for increasing the role of consumption taxes in the overall revenue effort.
7. ***The reforms suggested by the O'Brien panel would appropriately make the equalization system more predictable.*** With differences in provincial fiscal capacity having widened as a result of the boom in world commodity prices, there is increasing urgency to return the program to a rules-based system and to avoid ad hoc bilateral arrangements. In particular, the suggestion to include resource revenues from all provinces in the standard for the calculation of equalization transfers is welcome.
8. ***With sound frameworks delivering macroeconomic stability, we welcome the focus on enhancing prosperity***. The theme of *Advantage Canada* is timely given modest investment by businesses in machinery and equipment and R&D, as well as a continuing productivity gap with the United States. We would particularly emphasize the value of initiatives to enhance the business environment. In addition to cutting high marginal effective tax rates on capital (including by promoting the harmonization of provincial sales taxes with the GST) and improving financial market intermediation, priorities could include phasing out restrictions to foreign direct investment, reducing the regulatory burden on firms, eliminating interprovincial barriers to trade in goods and labor mobility, and adapting the immigration system more fully to the needs of the economy.

Source: 2007 *Article IV Consultation with Canada—Preliminary Conclusions of the IMF Mission.* Canada's full Article IV report and the Executive Board's assessment can be found at www.imf.org.

Likewise, membership in the World Bank Group affords Canada an important voice on key development issues in one of the world's premiere multilateral development institutions. Through its engagement in the Bank, Canada's influence in developing countries can be leveraged beyond what can be achieved through bilateral programs. The Canadian International Development Agency leverages 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. 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. Finally, the Bank provides significant procurement opportunities for Canadian companies and individuals.

Canadian Companies Benefit From World Bank Procurement

In FY2006, Canadian firms were awarded contracts worth more than US$38 million under Bank-financed contracts associated with investment lending. The experiences of two Canadian companies highlight the benefit this relationship with the World Bank can yield.

CPCS Transcom is a Canadian company that specializes in international transportation commercialization and privatization projects. It has completed over 700 projects in more than 60 countries. Clients include national governments, public transit authorities, private and state-owned transportation organizations, and mining companies. The company also assists the World Bank, the Canadian International Development Agency, the African, Asian, Caribbean and the Inter-American Development Banks, the International Civil Aviation Organization and the United Nations Development Programme. Current projects being financed by the World Bank Group include:

- Reform and privatization of the Nigerian Ports Authority.
- Transactions advisers for the concessioning of Tanzania Railways Corporation.
- Implementation of a concession structure for the Ghana Railway Company.
- Concessioning of the Nigerian Railway Corporation.
- Privatization of port services in Sierra Leone.
- Privatization of power generation and distribution companies in Nigeria.

Développement international Desjardins (DID) is a Canadian company that specializes in providing technical support and investment for the community finance sector in developing and emerging countries. DID currently provides substantial support to many cooperative and government partners in some 20 countries in Africa, Latin America, the Antilles, Asia, and Central and Eastern Europe. Two examples of World Bank-financed projects include:

- For almost three years, DID has supported 6 of the 12 federations of financial cooperatives in Mexico in their own efforts to assist their affiliated cooperatives, in order to strengthen their management and enable them to meet new legislative requirements. This initiative facilitates the development of sound, reliable institutions that meet universal standards of sound management.
- DID helped to establish SERFIR cooperatives in poor and marginalized areas with no prior access to a financial institution. DID's expertise, notably in the areas of technological solutions and the design of diversified financial services adapted to local realities, has helped SERFIR become an institution producing impressive financial and social results.

Financial Support

Table 3 summarizes Canada's quota at the IMF. Table 4 illustrates Canada's capital subscriptions and voting share at the IBRD, IFC and MIGA. It also highlights Canada's cumulative donor contributions to IDA.

Table 3
Canada's Financial Position at the IMF as of December 31, 2006

	2006	2005
	(SDR millions)	
Quota	6,369.2	6,369.2
Fund holdings of Canadian dollars[1]	5,815.8	5388.9
Reserve position in the Fund[2]	553.4	980.3

[1] 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.

[2] 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 and New Arrangements to Borrow. As the name suggests, Canada's reserve position in the Fund is part of Canada's official foreign exchange reserves.

Source: www.imf.org/external/fin.htm.

Table 4
Canada's Financial Position at the World Bank Group as of June 30, 2006

	IBRD[1]	IDA[1]	IFC[2]	MIGA[3]
		(US$ millions)		
Subscription	5,403.8	–	81.3	56.5
Amount paid in	334.9	6,220.0[4]	81.3	10.7
Amount callable	5,068.9	–	–	45.8
Subscription share (%)	2.85	4.44	3.44	3.00
Voting power (%)	2.78	2.82	3.39	2.51

[1] *The World Bank Annual Report 2006*.

[2] IFC 2006 annual report, *Increasing Impact—The Year in Review 2006*.

[3] MIGA, *2006 Annual Report*.

[4] This number represents Canada's cumulative contributions to IDA.

In addition to the resources provided through our membership at the IMF and World Bank, Canada is an important provider of donor funding for these institutions.

- In 2006, Canada contributed SDR 14.3 million to the IMF's Exogenous Shocks Facility (ESF). This facility was established in 2005 to provide timely concessional support to low-income members facing exogenous shocks. To date, no low-income member has requested support under the ESF.
- In 2006, Canada paid $16.6 million to the IMF in fulfillment of our obligations under the Multilateral Debt Relief Initiative (MDRI). Our first payments to IDA ($35.3 million) and the African Development Bank ($10.4 million) in support of the MDRI were made early in 2007.

- Canada provides core financial support to IDA. Donors pledge new funds to IDA as part of replenishment discussions that happen every three years. The fourteenth replenishment of IDA (IDA14) concluded in February 2005. In 2006, Canada made its second of three equal payments to IDA14 for $318 million.
- In addition to our traditional transfers to IDA, Canada also makes use of World Bank-administered Multi-Donor Trust Funds (MDTFs). MDTFs have been established in a number of post-conflict situations in order to mobilize resources and coordinate reconstruction efforts. Examples of Canadian contributions to World Bank-administered MDTFs in 2006 include $78.5 million to Afghanistan and $40 million to Sudan. In 2006, Canada provided a total of $146 million to World Bank Trust Funds.

World Bank Group Transactions in Canada or in Canadian Currency

The World Bank Group undertook one C$12–million bond issuance in Canada in 2006.

Looking Ahead

Despite a very successful year in which progress was made on a variety of Canadian policy priorities, challenges remain. This section presents the key areas where the Canadian government will be looking for progress over the coming year.

IMF Reform

As mentioned in the section "Canadian Policy Priorities at the Bretton Woods Institutions," the IMF faces a number of challenges due to the changing international economy (e.g. changes in the nature of capital markets and in the relative positions of national economies) that threaten its legitimacy and effectiveness. Over the next two years, IMF management and membership will focus on finding innovative and workable solutions to improve member representation, strengthen surveillance and ensure its lending instruments are best tailored to member needs, especially those of emerging market economies. Given the divergent interests, balancing the views of members will be very difficult.

Quotas, Voice and Representation

Recognizing the fundamental importance of an agreement on an IMF reform package to the legitimacy and future effectiveness of the IMF, in the second stage of IMF reform, Canada will work closely with its partners in the IMF and with the G7 and G20 Finance Ministers to ensure the IMF's governance structure reflects the relative economic weight of the institution's membership. We anticipate that quota reform will form an important element of a wider package of second-stage reforms that will also include adjustments to the level of basic votes and the possible introduction of a new lending instrument. We cannot underestimate this challenge given differing member perspectives. Any move to increase basic votes at the Fund, which would benefit the poor and small members, would likely be replicated at the World Bank.

Strengthening Surveillance

Canada supports reforms to surveillance that focus Fund scrutiny on situations where members are pursuing policies with negative spillover effects on the world economy. The Fund must also have a surveillance framework that promotes objective and even-handed assessments of member policies, allows the Fund to be a trusted advisor and promotes a high level of public transparency. The Fund is studying options to update the legal underpinnings (guidance and accountability frameworks) of surveillance, including the revision of its 1977 Decision on Surveillance over Exchange Rate Policies, to ensure they are more closely aligned with evolving practice in the global economy. It is also considering the possible implementation of a surveillance remit process that would provide better member guidance concerning surveillance priorities.

IMF Lending

The Fund must act to prevent crises, but be ready to step in with appropriate financing facilities when they occur. Emerging market economies have unprecedented access to financing in private international capital markets. However, stability risks remain, and the Fund has been studying ways to mitigate them. The answer may be a high-access precautionary lending instrument that emerging market members with sound policy frameworks can count on as a backstop for their international reserves. Canada supports reforms to Fund lending facilities that promote effective crisis prevention and resolution. However, given past difficulties in implementing facilities like the Contingent Credit Lines, it will be challenging to design a facility that provides reliable access to Fund resources while ensuring that Fund resources are protected. Moreover, the Fund will have to ensure that positive signals are sent to markets when members utilize or cancel high-access precautionary lending instruments.

Financing the IMF

Canada will be assessing the report by the Committee of Eminent Persons on the sustainable long-term financing of the Fund that was released in January 2007, and will work with its partners at the IMF and in other fora to ensure the IMF has a sustainable and equitable financing model going forward. While not part of the committee's mandate, work will obviously have to include an analysis of, and possible further cuts in, the Fund's expenditures.

IDA15 Replenishment

The fifteenth replenishment of IDA (IDA15) will begin in March 2007. In preparation for the replenishment cycle, Canada has flagged three key areas where we expect progress to be made.

1. Results Management and Development Effectiveness

We strongly believe that a continued emphasis on aid effectiveness and results management is necessary in order to maintain strong donor support for IDA. Clearly, the work that IDA has done to date in the development of a results measurement framework has the potential to become a very useful tool to evaluate aid effectiveness. Canadians want accountability for their aid spending to ensure that it is put to effective use. We are not alone in this respect. Many donors are under increasing pressure to demonstrate that aid dollars are being put to good use. In part, this will require a stronger focus on both qualitative and quantitative measures.

We strongly support IDA's efforts to monitor statistical capacity–building activities undertaken in IDA countries on an annual basis, and encourage further work in this area, including increased reporting on the quality and coverage of social sector statistics in all IDA countries. This kind of work will help all donors assess statistical needs and set out action plans to build and improve statistical capacity so that ultimately, countries can plan for and measure their own development results.

2. Failed and Fragile States

Canada is committed to addressing the problems of failed and fragile states. The top three beneficiaries of Canadian bilateral assistance (Afghanistan, Sudan and Haiti) fall in this category. Our efforts are supported by a growing international focus on how failed and fragile states can be reintegrated successfully into the global economy. Both the IMF and World Bank are important partners in working with these countries. However, we would like to see more analysis on the role that IDA can play in helping fragile states transition to a more stable position. In particular, we believe that the IDA15 replenishment process provides an opportunity to revisit IDA's assistance to these states, as well as how IDA can work with other development partners (the United Nations, regional development banks, donors and the countries themselves) to improve collaboration and the effectiveness of aid.

3. Debt Sustainability

Debt sustainability is an issue that warrants continued attention, particularly the importance of enhancing the debt management capacity of many IDA countries. Building debt management capacity and improving the quality of debt data will enable debtor countries to make informed decisions regarding the acquisition of new debt and their current and future ability to service such debt without undermining their long-term development goals. The World Bank, and the IMF can play a significant role in building debt management capacity in heavily indebted poor countries (HIPCs). This will be an important theme during the IDA15 replenishment.

Ending the "Lend-and-Forgive" Cycle

On December 31, 2006, the HIPC Initiative sunset clause took effect, which ensures that the remaining 10 eligible countries yet to enter the HIPC process can do so at their own pace. Before a country enters the HIPC process, its arrears to IDA, the IMF and the African Development Bank must be cleared. This will require substantial financial resources, both from the debtor and the donor community, and is a priority area of discussion. Liberia is of particular importance as it is likely to meet the conditions to clear its arrears soon.

Despite the significant reduction in beneficiary country debt stocks after the provision of HIPC and Multilateral Debt Relief Initiative (MDRI) debt relief, there is a risk that new lending and borrowing can lead to a rapid re-accumulation of unsustainable debt. The increased fiscal space of HIPCs in the post-MDRI environment, together with the growing financial presence of new creditors, heightens the need to ensure that new borrowing is conducted at a sustainable pace and does not undermine the long-term benefits of debt relief. To do so, Canada, along with other G7 leaders, are encouraging both creditors and debtors to adhere to the Debt Sustainability Framework, which lays out guidelines for acceptable and sustainable lending practices.

For more information on the IMF/World Bank

IMF

A vast array of IMF information—including fact sheets, international financial statistics, press releases, speeches, the *IMF Survey*, annual reports, world economic outlooks, staff country reports and working papers—is available on the Fund's website at www.imf.org.

Alternatively, requests for information can be addressed to:

International Monetary Fund
Publication Services
700 – 19th Street N.W.
Washington DC 20431, USA
Phone/fax: 202-623-7430/202-623-7201
publications@imf.org

World Bank

The World Bank releases considerable information on its various activities, including data and statistics (e.g. international trends, country-specific information), research materials (e.g. development policy, trends and issues), special reports (e.g. *World Development Report 2006: Equity and Development, Doing Business in 2006: Creating Jobs, World Development Indicators 2006*), press releases and annual reports by World Bank Group association and region. Information is available on the Bank's website at www.worldbank.org.

Alternatively, requests for information can be addressed to:

World Bank InfoShop
The World Bank
701 – 18th Street N.W.
Washington DC 20433, USA
Phone/fax: 202-458-4500/202-522-1500
pic@worldbank.org

Annex 1

Statements Prepared for the International Monetary and Financial Committee of the Board of Governors of the International Monetary Fund

The Honourable Jim Flaherty, Minister of Finance for Canada,

on behalf of Antigua and Barbuda, Bahamas, Barbados, Belize, Canada, Dominica, Grenada, Ireland, Jamaica, Saint Kitts and Nevis, Saint Lucia, and Saint Vincent and the Grenadines.

Washington, DC
April 22, 2006

This meeting of the International Monetary and Financial Committee (IMFC) presents us with an historic opportunity to reinvigorate the International Monetary Fund (IMF) and empower it as the guardian of the market-based international monetary system. The Strategic Review of the Fund's role, launched by the Managing Director two years ago, stresses the importance of accountability and results. We have before us concrete suggestions to transform many aspects of the Fund's surveillance, lending and capacity building in order to strengthen its partnership with all of its members. We must also address questions of governance, including the under-representation of a number of systemically important emerging market economies. As IMF members, we must act to renew the Fund and imbue it with a culture of accountability and achievement and with a strong voice in resolving global imbalances.

Global Economy

This meeting occurs in the context of a strong global economy, with growth continuing to exceed expectations. This prosperity has continued in the face of challenges, particularly the surge in oil prices. That these price increases have thus far had only a transitory effect on inflation is a testament to the work of our central banks in creating and defending an environment of low and stable inflation. Going forward, we need to set the stage for continued economic stability, in part by ensuring that the global imbalances, which are unsustainable in the long run, are resolved in an orderly manner. The current favourable environment of strong global growth provides a good opportunity to work toward this objective.

Let me now briefly turn to economic developments in Canada, Ireland and the Caribbean countries. The Canadian economy remains strong. In 2005 real gross domestic product (GDP) increased 2.9 per cent, the same pace as in 2004, underpinned by healthy consumer spending and non-residential business investment. Well-anchored expectations are helping to keep consumer price inflation low and stable. Solid personal income gains and still-low interest rates, coupled with Canada's strong monetary and fiscal fundamentals, should continue to support Canadian growth in 2006 and 2007, with estimates of real GDP growth of about 3 per cent in both years.

Canada's fiscal situation remains solid. Canada was the only Group of Seven (G7) country to record a fiscal surplus in each of the past three years and is expected to remain the only G7 country to record a surplus in 2006 and 2007. The federal debt, as a percentage of GDP, has declined steadily from a peak of over 68 per cent in 1995–96 to under 39 per cent in 2004–05.

The Irish economy continues to prosper. Real GDP grew by 4.7 per cent in 2005, and growth at a broadly similar rate is expected in 2006. Domestic demand was the main impetus to growth in 2005, while there was some deterioration in the current external account. Construction and house building were particularly strong, while the volume of consumption rose by 5.6 per cent. In 2005 employment grew by more than 4 per cent, with much of the increase being accounted for by inward migration. With a buoyant economy and rising oil prices, inflation has risen in recent months, with the European Union harmonized index of consumer prices averaging 2.2 per cent in 2005 and rising to 2.7 per cent in February 2006. Despite record levels of housing supply, house prices continue to rise sharply and have even accelerated somewhat in recent months. On average, house prices rose by more than 9 per cent in 2005.

In line with the policy of maintaining broad fiscal balance, the General Government balance recorded a small surplus of 0.4 per cent of GDP in 2005, while a small deficit is envisaged this year. The General Government debt ratio has fallen to less than 28 per cent of GDP. With its consistently high growth rate, low unemployment and broad fiscal balance over many years, the Irish economy remains well placed to face the challenges of the globalized economy.

The economic recovery in the Caribbean which began in 2003 continued in 2005. Growth was observed in the construction, mining and tourism sectors even as agricultural output was interrupted in those countries hit by hurricanes in 2005. The devastating human and economic impact of the hurricanes continues to highlight the vulnerability of these countries to shocks. Inflation remained stable in most economies but fiscal outcomes did not improve as expected following declines in the effective oil tax rates of several countries. While there was some improvement in the primary balance of several countries, meaningful debt reduction was difficult to achieve as governments struggled with the financing of hurricane reconstruction and dealt with the consequences of rising oil prices.

The IMF continues to provide valuable assistance to the Caribbean countries that I represent, through increased policy dialogue and through Fund-supported programs in two countries. In this regard, Dominica's performance under the Poverty Reduction and Growth Facility has been exemplary, while Grenada has recently been approved to receive assistance under this facility. In other areas, the Caribbean moved with conviction to address other challenges by furthering structural reforms to improve their investment climate, strengthen competitiveness and enhance regional cooperation. Regarding regional cooperation, the first phase of the Caribbean Community Single Market and Economy came into effect in January 2006 with six countries signing and the remainder expected to sign by June 2006.

Revitalizing the IMF as Guardian of a Market-Based International Monetary System

The global financial and economic landscape has changed considerably over the last two decades, and our challenge is to forge a common view on the proper role of the IMF in a globalized international financial and monetary system. Canada, Ireland and the Caribbean reaffirm our support for a market-based international monetary system.

Among the most important developments in the global economy and international monetary system has been the enormous growth in recent years in private capital flows and the corresponding increase in cross-border holding of assets. Globalization has not only expanded consumption and investment opportunities, but has also allowed imbalances to grow and the scale of crises to increase. This has clear implications for the role of the Fund. First, it must approach its activities from the perspective of enhancing the efficiency and stability of markets. Second, to better support this market-based international monetary system, it must strengthen its effectiveness in persuading countries not to pursue policies that undermine the prosperity of their neighbours or the stability of the system as a whole. National borders now have little meaning; at least in terms of economics and finance, we are truly living in a "global village."

A market-based international monetary system requires clear "rules of the game" and adherence to them by all countries. As the institution at the centre of the system, it is essential that the IMF has both the capacity and an unambiguous mandate to monitor key economic and financial trends and, through analytically strong and effectively communicated policy advice, to help countries, regions and the world mitigate vulnerabilities before they become serious risks to national and international prosperity. In sum, we have a common objective—global prosperity—which can be best achieved through multilateralism and cooperation.

In designing a strengthened IMF, we need to adopt a "can do" attitude with an eye to pragmatism and results. The Managing Director has set out a comprehensive plan of action to reinforce the IMF's position at the centre of the international monetary system. We welcome the proposals. In taking these forward, we should not lose sight of the fact that the IMF is most effective when it is most persuasive. And it will be most persuasive when it has at its disposal strong analytical resources, has the proper incentives for candour, and understands the importance of communicating its policy advice. The Fund should be straightforward in its public communications, particularly in cases where it believes that a country's policies undermine its own prosperity and that of its neighbours. And in its role as confidential policy advisor, it should not hesitate to deliver messages in the most frank and hard-hitting manner possible.

Members of my constituency consider two aspects of the Managing Director's reform agenda—governance and surveillance—to be particularly critical in breathing new life into the Fund and establishing a more valuable partnership between the Fund and its members.

On governance, concerns about the widening disparity between quota shares and the growing international economic weight of a number of emerging market members threaten to erode the legitimacy of the institution. We support action on this issue through a two-stage approach. The first stage would see ad hoc quota increases for a small number of systemically important emerging market economies at our next meeting in Singapore as a "downpayment" for additional governance reforms that would follow in the second stage. This second stage must have a clear deadline to ensure concrete action. At a minimum, reforms in the second stage should address the need to protect the voice of the poorest, clarify the roles of the Executive Board and management, and introduce greater transparency and the principle of merit into the selection of senior management. The Executive Board needs to focus on strategic issues and management needs to pay more attention to results.

Turning to surveillance, economic and financial integration has created new challenges, and the Fund and its membership must adapt accordingly. To be relevant, the IMF must focus on the right issues, and it must have the right processes in place to ensure that its advice has a real impact. Global financial markets underscore the need for increased emphasis on financial sector issues and public and corporate debt dynamics. The current global imbalances debate suggests the need for a closer look at regional and global linkages. Finally, the IMF must pay greater attention to exchange rate regimes and how country choices impact the allocation of benefits of globalization and risks to the global economy.

The most critical challenge facing the global community and the Fund today is the resolution of global imbalances, which reflect large current account deficits of some key economies mirrored by large current account surpluses of other nations. These imbalances are underpinned by mismatches of savings and investment on a global scale. The existence of a dual exchange rate system further aggravates the problem and delays the adjustment process.

The IMF has a critical role to play as global coordinator to help resolve these imbalances in an orderly fashion. Since global imbalances, as well as other issues of systemic importance, are problems not of just one country but of many, we need a multilateral format for consultations. We therefore support the proposed strengthening of multilateral consultation procedures. In this regard, yesterday's Conference on Global Imbalances was an important step. But this needs to be followed by an agreement to strengthen the IMFC as the body for multilateral economic and financial policy coordination.

Ultimately, surveillance is about the promotion of good public policy. And surveillance will be most effective if it takes place in the context of good governance based on strong political and economic institutions. In addition to its long-standing Article IV surveillance activities, the IMF has more recently promoted good governance through support for the Standards and Codes initiative, launched in 1999 and operationalized through the targeted surveillance instruments of the Financial Sector Assessment Program and the Reports on the Observance of Standards and Codes (ROSCs).

These have unquestionably helped to promote domestic and international financial stability through the dissemination of international best practices in key areas of macroeconomic relevance—namely the financial sector, fiscal transparency, and data dissemination and quality. It is time to ask whether a more comprehensive approach, broadening surveillance to include some aspects of the political institutional context, should be considered to identify additional vulnerabilities and assess the efficacy of international efforts to foster good governance. This could take the form of a "ROSC for Governance," which could integrate the Fund's existing work on good practices for fiscal, monetary and financial policy with broader perspectives, including those embodied in the World Bank's Country Policy and Institutional Assessment methodology.

Devoting more resources to more relevant multilateral and regional surveillance, and to systemically important issues and countries, will entail trade-offs. We stand ready to support the proposed two-track country surveillance process under which greater resources would be devoted to systemically important countries and issues of systemic importance, and with a streamlined procedure for other countries. We also agree with other measures to streamline internal governance processes to assure more effective decision-making processes, while keeping costs low.

The Fund must also heed the call of emerging market economies, which have challenged the Fund to help them benefit from economic and financial integration. The Fund is responding with concrete proposals, including a new contingent financing instrument which requires careful examination. In our view, any new instrument must be consistent with the Fund's exceptional access framework, which disciplines its lending activities, enhances risk management and provides greater certainty to markets. In designing the new instrument, the Fund must pay careful attention to lessons learned with similar instruments, including the Contingent Credit Line and the previous use of precautionary exceptional access for exit purposes. Finally, broad-based consultations will be necessary to ensure consistency with identified country needs, and to clarify access guidelines, pricing and the exogenous shocks to be covered by the instrument. We remain to be convinced that these complex issues can be resolved.

The Fund has made substantial progress in assisting low-income countries resume economic growth. Under the Multilateral Debt Relief Initiative, the Fund has made a clean break with the "lend and forgive" cycle by eliminating the debt owed by 19 small and poor countries. It has also introduced the Policy Support Instrument to foster a new non-borrowing relationship between the Fund and its small and poor members. The IMF has established the Exogenous Shocks Facility to assist small and poor members in recovering from financial difficulties outside of their control, including high oil prices. Canada has contributed to the costs of IMF debt cancellation and will contribute to the Exogenous Shocks Facility.

The IMF should build upon this strong base to strengthen further its assistance to low-income countries according to its mandate and comparative advantage. The IMF needs to work with low-income countries to prevent the re-emergence of unsustainable debt burdens. It should assist them to build and strengthen fiscal and debt management capacity and integrate debt sustainability considerations into Fund activities.

The Fund will need to work closely with the World Bank, which plays a leading role in coordinating assistance to low-income countries. We call on the Fund and the World Bank to clarify further their division of labour, based on clear accountabilities and a focus on results. The IMF plays an essential role in informing the macroeconomic policy choices of its small and poor members. But this role must be tempered with the need to work effectively with developing countries, the multilateral development banks, bilateral development agencies and the United Nations (especially in post-conflict cases).

Conclusion

The world will continue to change and barriers dividing us will continue to fall. We need strong international institutions, including a reinvigorated Fund, to ensure a well-functioning, market-based international financial system. But the Fund also needs us, its members, to empower it with the necessary support—cooperation, finance and attention. It is time to get to work.

Singapore
September 17, 2006

We meet today at an extraordinarily important time for the International Monetary Fund (IMF) as it implements the Medium-Term Strategy proposed by Managing Director de Rato and endorsed by this Committee. There is increasing recognition across the IMF's membership of the importance of implementing real reforms that will strengthen the Fund's ability to fulfill its mandate to promote international financial stability in an increasingly globalized world. We need to make progress in a number of key areas. Quota reform is one of those areas. But quota reform is only one part of a broader package of needed reforms. Making surveillance more effective and modernizing the Fund's governance structure are also vital. Real and lasting reform of the institution will require a renewed commitment to achieve agreement on a comprehensive second stage of reforms within two years. By reaffirming our commitment to the IMF, we will renew the institution and build a more flexible, market-based global financial system. At this critical juncture, the world is looking to us to show leadership and vision in carrying out this important and ambitious reform agenda.

Global Prospects

This meeting occurs in the context of a continued strong global economy. We have seen stronger than expected growth in the first half of this year, and the global economy is expected to grow 5.1 per cent this year and 4.9 per cent in 2007. The outlook continues to be stable in the face of increasing inflationary pressures and high energy prices, though we do find ourselves faced with risks that are slanted to the downside. In particular, growing global inflationary pressures and inflation expectations may require further interest rate increases. Given the current environment, we need to encourage open communication of monetary policy to prevent uncertainty over policy direction from spilling over into global financial markets. Although no major disruption to global growth is expected, we need to be vigilant in monitoring early-stage expansions underway in many parts of the world and ensure that we continue positive work in the area of reducing global imbalances.

Canadian Developments

The Canadian economy remains strong. In 2005, real gross domestic product (GDP) increased 2.9 per cent, the same pace as in 2004, underpinned by healthy consumer spending and non-residential business investment. Well-anchored expectations are helping to keep consumer price inflation low and stable. Solid personal income gains and robust corporate profit growth, coupled with Canada's strong monetary and fiscal fundamentals, should continue to support Canadian growth in 2006 and 2007, with estimated increases in real GDP of about 3 per cent in both years. This solid growth performance is especially noteworthy in a context in which Canada has experienced a substantial appreciation of its exchange rate, an appreciation that in part reflects a contribution to the resolution of global imbalances.

Canada's fiscal situation remains solid. On a total government basis, Canada was the only Group of Seven (G7) country in surplus in 2005 and will likely be the only G7 country to remain in surplus in 2006 and 2007. Total government net debt, as a percentage of GDP, has declined steadily from a peak of over 69 per cent in 1995 to under 27 per cent in 2005. Canada has had the lowest net debt to GDP of any G7 country since 2004, and this situation is also expected to continue.

Irish and Caribbean Developments

Let me now turn to developments in Ireland and the Caribbean countries that form part of the Constituency I represent at the International Monetary and Financial Committee (IMFC). The growth prospects for the Irish economy remain positive. In recent years, growth has averaged close to 5 per cent per year and, in the absence of major shocks, this pattern seems likely to persist in 2006 and 2007. Employment growth has been a particular feature of the economy in recent years, while unemployment has remained stable at a little over 4 per cent. There has been very significant inwards migration, especially from Eastern Europe, in addition to a continuously rising labour participation rate.

With a high dependence on imported energy and with recent increases in European Central Bank official interest rates feeding into the consumer price index through the mortgage rate, there has been a recent spike in inflation to 4.2 per cent, although the underlying rate is less than 3 per cent. The tightening of monetary policy, however, should impact favourably on Irish inflation going forward. The overall fiscal position will again be close to balance in 2006, reflecting the health of the economy and spending restraint. Overall, the remarkable success of the Irish economy over the past 15 years is continuing and the economy is well placed to cope with shocks, should they occur.

There was increased economic activity in most of the Caribbean countries in the Constituency in 2006, underpinned by a pickup in tourist arrivals and a construction boom, the latter largely due to preparations for the 2007 Cricket World Cup. These countries, nonetheless, continue to face risks associated with large current account deficits, the macroeconomic impact of higher oil prices and elevated levels of debt. Stabilization and consolidation efforts continued in the two countries—Dominica and Grenada—receiving Fund financial support through the Poverty Reduction and Growth Facility. Dominica's growth performance has been solid; while in Grenada, which was ravaged by storms in 2004 and 2005, the Fund supported program is providing the foundation for a comprehensive medium-term economic reform program.

The assistance being provided by the Caribbean Regional Technical Assistance Centre (CARTAC) has been invaluable to my Caribbean constituents. The current program cycle expires at the end of 2007 and an evaluation, coordinated by the Fund's Office of Technical Assistance Management, is currently underway. We urge continued Fund and other donor support for Phase III of CARTAC for the period 2008-2010. With the first phase of the CARICOM (Caribbean Community) Single Market and Economy initiative having been formally adopted earlier this year, we urge the Fund to further strengthen its regional surveillance activities. We believe that new modalities may be needed to enhance regional surveillance, and we support work by the Fund in formalizing these modalities.

IMF Reform

We are all aware of the fundamental changes that have taken place in the world economy in the last two decades. In concrete terms, globalization has translated into the ability of firms and individuals to easily invest in the markets of economies across the globe; into new and innovative financing for both private and public sector initiatives; and into massive flows of goods and capital across borders.

These developments have provided unparalleled opportunities for economic growth and private entrepreneurship, but at the same time have increased the costs of inappropriate policies. A key lesson to be drawn is that adaptability and innovation in response to change are vital to success. This lesson is as true for the IMF as it is for the rest of the world. Fundamental and innovative reforms are needed to ensure the IMF's continued relevance in a world where the economic influence of emerging market countries is growing, where the smallest and poorest countries need to be better integrated into the world economy and not marginalized, and where even the largest countries can be affected by spillover affects from others' policies. The Fund's surveillance and lending roles need to continue to adapt to be relevant and effective in this new environment.

Under the guidance of Managing Director de Rato, we have before us a broad and innovative set of policy responses to the challenges facing the institution. A stable and equitable financing model for the IMF itself will need to be considered as part of the reform package. Moreover, ensuring that IMF financing facilities serve the needs of members, while promoting sound economic and financial policies, will be a difficult but important task.

Today, I would like to focus on the challenges of moving forward on the reform of quotas and voice, as well as the role of the IMF in bilateral and multilateral surveillance.

Quotas and Voice

Perhaps the most pressing issue of IMF governance is reform of Fund quotas. Quotas determine the amounts that countries can borrow from the Fund in cases of balance of payments or budgetary problems and the resources that countries in good financial health can be asked to provide the Fund to help other members. They are also the major factor in determining countries' voting power at the Fund. Proper alignment of quotas with countries' economic and financial weight in the global economy is essential to the Fund's legitimacy as an international institution. Legitimacy in turn is key to ensuring that the Fund can serve as an appropriate forum for members and that the Fund's policy advice is heeded.

The Managing Director has developed an innovative and workable two-stage process that is aimed at renewing the Fund's governance structure. Canada fully supports Mr. de Rato's planned reforms, including the initial ad hoc increase for four highly under-represented countries—China, Korea, Mexico and Turkey. We view this ad hoc quota increase as a meaningful "down payment" on more comprehensive reform. Looking ahead, we see considerable merit in a second round of ad hoc quota increases that would follow agreement on a new quota formula in the second stage of reforms. We remain committed to making meaningful changes in the quota formula to better reflect global economic realities, and we are committed to doing this in the two-year time frame proposed by the Managing Director.

The IMF's legitimacy and effectiveness also require a stronger voice for low-income countries. Accordingly, we support at least a doubling of basic votes and an amendment to the IMF Articles that will introduce a mechanism to safeguard the share of basic votes in total voting power against erosion in the future.

Canada is also sensitive to the special challenges facing the offices of the two African Executive Directors at the IMF, who each represent constituencies of more than 20 countries. We support efforts currently underway to ensure that these offices are in a position to effectively represent the members of their large constituencies, many of which are involved in IMF lending and technical assistance programs.

As the IMF reforms its governance structure to better reflect the global economic weight of its members, we must all remember that IMF membership entails shared responsibilities and obligations. Indeed, as a member's role and voice in a global institution increases, it is reasonable to expect that the scrutiny placed on its responsibility to its partners and the stability of the international system will increase as well. This point also has relevance for the reforms we are undertaking on surveillance.

Surveillance

The Managing Director has taken an important and very welcome step toward strengthening the effectiveness of IMF surveillance through the recent launch of a multilateral surveillance exercise aimed at promoting high-level dialogue among key members of the global economy to address global imbalances. I am encouraged by the progress being made in these consultations and look forward to a report on their outcome at the next meeting of the IMFC.

This multilateral consultation mechanism could provide an effective and useful forum in which to consider other issues critical to the smooth functioning of the global economy. Indeed, we believe that consultations led by the IMF with selected capitals on key global economic issues should become a regular feature of Fund surveillance, with partner countries selected in a flexible and pragmatic manner linked to critical issues affecting the global economy.

The effectiveness of multilateral consultations, and of the IMF's surveillance activities more generally, will depend on an approach that combines the strong analytic competence of the IMF staff with a clear recognition of the underlying objectives of the consultations. This will require priority setting and accountability for results on the part of the Fund's membership. This, in turn, requires a number of steps.

First, it will be important to define in a more rigorous fashion the principles upon which IMF surveillance should be based. Up to now, while imbalances and distortionary economic policies have often been highlighted in Article IV reviews of member economies, the Fund's surveillance activities have been criticized for not being effective in reducing the likelihood of crises or in promoting stability. As well, the Fund has been reluctant to act forcefully when it identifies instances where countries failed to live up to their obligations, and, in particular, where countries are engaging in policies that negatively affect other members or even the stability of the international monetary system. A challenge of more effective IMF surveillance is, certainly, for the Fund to find the right balance between its role as a "trusted advisor" to governments, and its core responsibilities to support a well-functioning global economy.

Second, the Fund needs a clearer operational approach—specific rules to clarify how the Fund will discharge its responsibilities by undertaking surveillance of fiscal, monetary, exchange rate and financial sector policies, and identifying cases where domestic economic and financial policies can have adverse international spillovers. These rules should clarify the steps to be taken when countries are found to be engaging in currency manipulation and/or competitive devaluation—activities prohibited by the Fund's Articles of Agreement—and should provide a firm basis for actions to address the situation.

In this context, I welcome the ongoing work by Fund staff and Executive Directors to revisit the 1977 Decision on Surveillance over Exchange Rate Policies, which should lead to a clearer and more effective understanding of IMF members' responsibilities and the Fund's role in supporting the international financial system.

Third, there must be clear accountability for results, based on the priorities agreed and endorsed by the Fund's membership. In this respect, an important step forward was the agreement at the last meeting of the IMFC on a new annual remit for both bilateral and multilateral surveillance through which the Managing Director, the Executive Board and the staff would be accountable for the quality of surveillance. We look forward to working with other Fund members, as well as the Managing Director and IMF staff, to develop a first remit that identifies key priorities for Fund surveillance in the year ahead.

This approach, implemented in the Fund's ongoing multilateral and bilateral surveillance activities, together with effective use of innovative mechanisms such as the current exercise on global imbalances, will make a major contribution to strengthening the IMF's role in promoting the stability of the international system.

Looking Forward

In the quest to reinvigorate the IMF, the successes here in Singapore are real and significant. The progress on quota reform will greatly improve the governance structure of the Fund. IMF reform, however, goes beyond quota reform alone: there is an important agenda we need to pursue in the areas of surveillance, Fund financing, and crisis prevention and resolution before the IMF can be fully transformed into the modern and representative international institution the world needs to safeguard global financial stability. We can take credit for what we have achieved at Singapore, but we need to press on with these important remaining challenges.

Annex 2

Statements Prepared for the Development Committee of the Boards of Governors of the World Bank and International Monetary Fund

The Honourable Jim Flaherty, Minister of Finance for Canada,

on behalf of Antigua and Barbuda, Bahamas, Barbados, Belize, Canada, Dominica, Grenada, Guyana, Ireland, Jamaica, Saint Kitts and Nevis, Saint Lucia, and Saint Vincent and the Grenadines

Washington, DC
April 23, 2006

It is striking that one key theme discussed by Ministers this weekend is similar to what my own government has identified as an important domestic priority. In particular, I would highlight the Government of Canada's commitment to strengthening its system of public governance to increase accountability. Accountability is a universal issue, transcending national boundaries. Given their mandates and relationship with their members, the Bretton Woods institutions have a strong role to play in promoting accountability and good governance.

Strengthening accountability is a shared responsibility. Donors and developing countries must work together to ensure that aid is used effectively to achieve concrete development results. Appropriate monitoring of policies is key to ensuring that we stay on track in fulfilling our commitment to achieve the Millennium Development Goals (MDGs). In recent years, we have seen a stronger collaboration between the Bank, the United Nations and the Organisation for Economic Co-operation and Development in developing a broader global monitoring framework to track progress in meeting the individual MDGs. However, more can be done to improve this process.

Measuring Results

Measuring results is a key element in the development paradigm. The collection of accurate, timely, useful statistics is critical to gaining an accurate understanding of progress achieved and the challenges that remain. Timely and reliable statistics are a key input to a results agenda.

As a national capacity to gather and assess statistics is critical to our efforts to monitor progress towards the MDGs, we must continue to support the Bank's Statistical Capacity Building Program.

As part of Canada's approach to development, the Canadian International Development Agency and Statistics Canada are working more closely together to help developing countries strengthen statistical systems, institutional capacity and planning. The strength of individual countries' statistical agencies should be regularly assessed and supported by increased technical assistance. Given its importance in monitoring progress towards the MDGs, we would like to see countries' statistical capacity routinely appraised in the context of Country Assistance Strategies.

Reaching the MDGs—A Shared Responsibility

By any measure, we are still too far from reaching the MDGs in too many parts of the world. We are encouraged that significant progress is being made in aggregate, due in part to the relatively favourable economic environment. However, we are concerned that progress has been uneven across countries and regions, with many being left behind, particularly in Sub-Saharan Africa. In the relatively short period remaining until 2015, it is clear that we need to strengthen our efforts to ensure that the promise of the MDGs translates into reality for the world's poorest citizens.

Canada is strongly committed to working in partnership with developed and developing countries, in an environment of mutual accountability, to reach the MDGs by the 2015 target. Reaching the MDGs will require greater efforts by developed countries to increase aid effectiveness and to ensure that aid is delivered in ways that support strengthening developing countries' governance structures. It will also require efforts on the part of developing countries to strengthen governance and accountability, to manage their economies more effectively, and to follow through on national poverty reduction strategies.

Ireland has also made strides in ensuring its aid dollars work better. Ireland has set a target of increasing its international assistance to 0.5 per cent of gross national product (GNP) by 2007 and to 0.7 per cent of GNP in 2012. It is well on track to meeting these targets, with assistance projected to reach 0.47 per cent of GNP in 2006. In Ireland, the increase in aid of over 24 per cent in 2006 is the largest additional amount of funding that has ever been provided in any one year. Ireland's Official Development Assistance (ODA) budget has more than quadrupled over the last decade, rising from 0.30 per cent of GNP in 1996 to 0.47 per cent in 2006.

Canada and Ireland both supported the Multilateral Debt Relief Initiative (MDRI), which has been implemented at the International Monetary Fund (IMF) and is being implemented at the International Development Association and the African Development Fund. We are committed to maintaining the financing capacities of these institutions. Ireland will address this by paying its entire share of the MDRI in 2006. Canada has already paid its share of the IMF's costs. It will be critical to ensure that this debt relief frees up fiscal space for important investments in areas such as health and education. In this context, we will want to ensure that the MDRI and the associated Debt Sustainability Framework do not lead to any adverse impacts on the flow of transfers to developing countries.

We need to ensure that this assistance is used effectively, and that any increase in aid resources translates into a commensurate increase in poverty reduction. Mutual accountability between donors and recipients is critical to promote the partnership spirit from the Monterrey Consensus. Developing countries must improve their performance to attract financial support, through both ODA and private sector investment, and to improve their domestic resource mobilization. For their part, donors need to do a much better job of supporting developing country ownership of poverty reduction strategies, aligning assistance to developing country priorities and coordinating assistance efforts with recipient countries and with each other. The 2005 Paris Declaration on Aid Effectiveness lays out a practical, action-orientated roadmap to improve the quality of aid and its impact on development. At the international level, it constitutes a mechanism through which donors and recipients of aid are held mutually accountable for meeting partnership commitments. At the country level, the Paris Declaration encourages donors and partners to jointly assess their mutual progress in implementing agreed commitments on aid effectiveness.

I would also reaffirm the importance of more concentrated efforts within the context of the World Trade Organization Doha Development Round to ensure that developing countries gain market access, which is key to achieving the economic growth required to meet the MDGs. Since the launch of the Round in 2001, serious challenges have arisen and important milestones have been missed. Clearly, we need to make significant progress on these negotiations to realize the promise of the Doha Development Round and reap its benefits. We need to work collectively to reach our goal of achieving substantive reductions in tariffs and agriculture subsidies by the end of the year. We expect the IMF and World Bank to strengthen their engagement under the "Aid for Trade" agenda as a necessary and complementary element to help countries benefit from further trade liberalization.

The Challenge of Governance

The composition of the Bank's lending portfolio has been shifting over the last decade, with a greater focus on those countries with a proven commitment to use assistance effectively. We know that strong policy environments, institutions and governance are essential for aid effectiveness. Countries with strong performance can absorb higher levels of aid and are likely to be more effective in converting aid into economic growth and poverty reduction.

Providing effective development support to countries with poor governance records remains a key challenge for the World Bank. The Bank has identified corruption as one of the single greatest obstacles to economic and social development. It undermines development by distorting the rule of law and weakening the institutional foundation on which economic growth depends. The harmful effects of corruption are especially severe on the poor, who are hardest hit by economic decline, most reliant on the provision of public services, and least capable of paying the extra costs associated with bribery, fraud and the misappropriation of economic wealth.

As the Bank continues to tackle issues of poor governance, we need to ensure greater clarity in the Bank's approach and a consistent application of its policies to borrowing members where weak governance, including corruption, is judged to represent significant risk. To this end, we look forward to early consideration by the Executive Board of a set of guidelines that will steer the Bank's operations in high-risk countries.

A Strategy for Middle-Income Countries

I would also like to address middle-income countries (MICs), where we have seen progress in achieving the MDGs. An example, highlighted in the Global Monitoring Report, is in the area of education, where there have been significant improvements in primary education completion rates. However, there remain significant disparities within MICs and we cannot be complacent.

While the Bank's role in low-income countries (LICs) is well understood, the institution's role in MICs is more complex. Many of these countries have access to alternative sources of financing that elude the LICs. Since a majority of the world's poorest live in MICs, the Bank must remain involved; however, its engagement must be clearly based on its comparative advantage. The World Bank's poverty reduction focus must be the touchstone of the Bank's efforts in these countries.

We see several areas where the Bank's strategy in MICs can be improved. The Bank has recognized that complex operational procedures are a burden for borrowing countries, and it has made recent progress in reducing transaction costs, speeding up delivery of support, and reducing or eliminating conditionality of investment operations. More progress is required, however, in simplifying procurement and disbursements. Greater attention must be given to the Bank's role in synthesizing and disseminating knowledge and advice to MICs.

Another area where we urgently need progress is in financial sector reform. Strong financial sectors are the best defence against financial crises and the impact they have on the poorest. Strong financial sectors are also needed to channel financing to the poorest to enable them to help themselves. Despite years of Bank lending to these countries for financial sector reform, stronger financial sectors have not been developed in many MICs. In defining its strategy for financial sector development in MICs, the Bank should set performance targets, such as healthier banking sector balance sheets and increased lending to small and medium-sized enterprises.

A results-driven approach to MICs means that over time we should see these countries become less dependent on aid dollars and able to attract more private sector financing, including through foreign direct investment (FDI). Currently, only five emerging market economies receive 60 per cent of all FDI inflows to developing countries. I would like to see the Bank's work focus on increasing the number of recipients of significant FDI over the next decade.

Meeting the Needs of Small States

Efforts to advance the development agenda cannot overlook the particular challenges of small states, including those in the Caribbean. We know these states are highly vulnerable to damage from recurring hurricanes, particularly in their low-lying coastal areas. Immediate attention is needed for small island states to help mitigate the risks of natural disasters. To this end, the World Bank's efforts to study possible insurance schemes for public assets and the International Finance Corporation's work to find new mechanisms to insure private dwellings are critical. We will continue to support the Bank's development of this new approach to comprehensive catastrophe risk insurance in the Caribbean and other small states, and call upon other donor governments and the private sector to join these efforts.

A longer-term challenge is the transfer of existing and new technologies required for adaptation to new weather patterns, particularly in the key sectors relating to agriculture and associated water resource management. However, these countries also face other challenges. These include faster-than-anticipated erosion of trade preferences, which are severely impacting several small states; the challenges of complying with more rigorous financial services regulations; and the underlying problem of small domestic markets aggravated by geographical dispersion. The latter leads to high per-unit costs, precludes economies of scale, raises transportation costs and undercuts efforts to foster regional integration. The World Bank has an important role to play assisting small island states to meet these challenges.

Singapore
September 18, 2006

These meetings provide a valuable opportunity for us to reflect on our achievements and, more importantly, on areas where we need to redouble our efforts. We have spent much of this weekend discussing how to sustain and build momentum through our collective efforts to achieve concrete development results in support of the Millennium Development Goals (MDGs).

Governance and Corruption

Accountability and effectiveness are key themes for discussion this weekend. We had very successful discussions on quota reform and improved surveillance yesterday at the International Monetary and Financial Committee, which will contribute to a more effective and representative International Monetary Fund (IMF). Within this committee, we have focused on how promoting good governance, including fighting corruption, and mutual accountability are essential to efforts to accelerate progress towards the MDGs. We know that aid is less effective in countries plagued by weak governance. While I think we have made good progress in recent months on this issue, significant challenges lie before us.

Ultimately, we need to recognize that only countries themselves—led by their own governments—can provide the leadership and ownership needed to strengthen governance. However, donors and international agencies can and should help with this process. Aid must be delivered in ways that support our partners' capacity to govern and promote accountability in the use of public resources.

The World Bank has demonstrated that it is a leader in governance and anti-corruption. We welcome the Bank's efforts since we met last spring to articulate a broad strategy to promote a more coherent, transparent and results-oriented approach. Going forward, we need to deepen our understanding of the challenges that weak governance and corruption pose for the development process and address more specifically how the Bank can meaningfully address these issues. As well, there remains a need for clear operational guidelines to better understand how decisions should be taken on World Bank support in situations where weak governance and corruption present real risks.

In countries where corruption is a challenge, we need to have clearer rules on the Bank's terms of engagement. We continue to urge the Bank to remain engaged even in countries where corruption represents a significant challenge, because without the Bank's efforts, there may be little progress forward. But the World Bank cannot tackle these issues on its own, and we look to continued progress in developing a common approach to tackling corruption, involving other donor partners as well as other multilateral development banks.

In effect, we all need to engage in the fight against corruption. International institutions must ensure that their in-house operations meet high integrity standards and that their interventions in member countries promote good governance. Developed countries must lead by example by trying to ensure that the operations of their governments and corporations are models of transparency and accountability.

Aid Effectiveness

Canada, Ireland and the Commonwealth Caribbean countries are strongly committed to working in partnership with others in an environment of mutual accountability to reach the MDGs by the 2015 target. Meeting these goals requires that, in addition to strengthening governance and accountability, developing countries manage their economies effectively and follow through on national poverty reduction strategies. For their part, donor countries must increase the effectiveness of their aid. Ensuring predictability of aid flows is critical to allowing developing partners to commit to essential reform and capacity-building measures. Developing countries also need to receive longer-term commitments to core areas of funding, especially for the provision of services to the poor.

We urge donors to reduce the aid management burden, particularly on the poorest and smallest states, in line with commitments under the Paris Declaration on Aid Effectiveness. Progress on these issues is important to secure stronger results on the ground. The Bank should draw on its recent experience in Africa and continue to promote stronger donor alignment, harmonization and coordination. In this regard, we encourage the expansion of recent efforts by the World Bank to prepare Joint Assistance Strategies with other donors based on national development strategies, such as Poverty Reduction Strategy Papers. And because the collection of accurate and timely statistics is critical to gaining an accurate understanding of progress achieved and the challenges that remain, I would reiterate my earlier suggestion that countries' statistical capacity be routinely appraised in the context of Country Assistance Strategies.

Investing in People

Today, there are 115 million children who have never entered school and another 130 million who will never complete primary school. Yet we know that investment in basic education is essential to achieve significant and sustainable results in poverty reduction. Canada believes that the international community has an important role to play in advancing efforts to achieve improvements in school enrolment as well as in primary school completion rates. This will require investments in bricks and mortar, in staff training and salaries, in teaching materials and in incentive schemes to encourage parents to enrol their sons and daughters.

Canada's investments in basic education in Africa have almost quadrupled since 2000, reaching $100 million annually by 2005. This has produced concrete results, contributing to more than 9 million additional enrolments in primary schools, with more than half of these places going to girls. We will continue to invest in education for African children, increasing our bilateral funding to $150 million a year over the next four years. Canada is also a strong supporter of the Education For All-Fast Track Initiative (EFA-FTI), which encourages donor and recipient countries to work in a spirit of partnership to achieve the education MDGs. Canada recently announced it will provide a $25-million contribution towards multilateral engagement with the EFA-FTI. This is in addition to the $46 million that Canada has committed through its bilateral aid program to the EFA.

More than 7 million people die annually from infectious diseases like pneumococcus, malaria, HIV/AIDS and tuberculosis, mostly in poor countries. Compounding this loss of life is the economic burden that disease places on families, and the repercussions for national economic development. We have spent much of the past year exploring a number of innovative finance proposals to help address international development challenges, particularly those in global health.

To this end, the Advance Market Commitment (AMC) pilot appears to us to be a particularly promising initiative. Canada is ready to contribute $100 million to support an AMC pilot project, which should be ready to launch by the end of this year, to develop vaccines. We urge donors to demonstrate support for an AMC pilot for a pneumococcus vaccine by providing the necessary financial commitments to ensure that we can launch this important project this year.

And in recognition that gender issues remain an area where more work is needed, we are encouraged by the World Bank's renewed attention and efforts to advance women's economic empowerment to achieve growth, poverty reduction and meet the MDGs. We believe that gender equality is an area in which the Bank has a comparative advantage and can provide strong leadership.

Renewing the Trade Agenda

The Doha Development Round was seen by many as an opportunity to further integrate developing countries into the multilateral trading systems. While we recognize the impasse, we continue to believe that a successful outcome to the Round would be the best way to realize the potential of trade as a tool for development. We stand ready to work with other World Trade Organization (WTO) members and the Director General of the WTO to find a way forward. In the meantime, we encourage all donors to meet their "Aid for Trade" commitments and support the continued strengthening of the Enhanced Integrated Framework as an effective collaborative mechanism for the identification, delivery and assessment of trade-related assistance. We also look to the World Bank and the IMF to continue their advocacy work on trade liberalization and to continue their support of furthering the Aid for Trade agenda.

Debt Reduction

The international development community has made great progress in debt reduction for the poorest countries. The Multilateral Debt Relief Initiative (MDRI) became effective at the IMF in January 2006 and at the International Development Association (IDA) in July 2006. We have every expectation that it will shortly become effective at the African Development Fund (AfDF).

Canada and Ireland are strong supporters of the ongoing work to address unsustainable debt burdens in low-income countries. In this context, it is important that we ensure that the MDRI leads to increased development resources. To achieve this, international financial institutions must be fully compensated for the costs of the MDRI and funding must be additional. We are committed to maintaining the financing capacities of the IMF, IDA and the AfDF as these institutions implement the MDRI. Ireland is paying its IDA share of MDRI costs up front. Canada has already paid its IMF share of MDRI costs and will begin making its payments to IDA and the AfDF as planned.

A growing concern, however, is that significant debt reduction creates substantial new borrowing room in some countries, which if not managed carefully could rapidly be filled with unproductive new financing. This new financing could reverse recent efforts to maintain debt sustainability under the World Bank-IMF Debt Sustainability Framework (DSF) and result in a rapid re-accumulation of debt in poor countries. We believe that more can and should be done to break such a "lend-and-forgive" cycle and ensure long-term debt sustainability. The review of the DSF in the context of the IDA14 Mid-Term Review will be important to advance this issue. It will also be important for borrowers to improve their debt management capacity, which is an area where the World Bank can provide expertise. Creditors must also do their part. A coordinated approach by all creditors, based on the analysis underlying the DSF, could help mitigate the risk of excessive borrowing.

Fragile States

Canada welcomes the World Bank's ongoing support for fragile states, including in post-conflict situations. Canada is actively involved in assisting a number of fragile states, with large development assistance programs, for example, in Afghanistan and Haiti.

While it is clear that the Bank has made considerable progress in its involvement in fragile states over the past four years, more needs to be done. Canada is working with the Bank to set up a Fragile States Partnership and Knowledge Initiative to develop and strengthen knowledge about effective approaches in fragile states. One area for further work is the Bank's aid allocation system. While we support a performance-based allocation system to determine IDA aid volume, we believe that there is scope to refine the system to be more effective in responding to the special challenges of state fragility. In this area, the IDA14 Mid-Term Review provides an opportunity to make real progress as we prepare for IDA15.

While there is also scope to continue to improve the Bank's state-building, governance and capacity development work, the Bank provides real value added in this area. This area requires long-term engagement and sustained investments in order to achieve lasting results. The Bank's financing predictability through IDA and long-term focus have allowed it to take on a leadership role in this area.

International Bank for Reconstruction and Development (IBRD) Partner Countries

We welcome the World Bank's recent evaluation of its role in IBRD partner countries. Bank engagement must be based on its comparative advantage, and poverty reduction must remain the focus of its efforts in these countries. In that vein, the Bank must continue to increase the effectiveness of its collaboration with other international players, including the IMF, bilateral donors and the private sector, in developing a comprehensive strategy to guide the Bank's involvement in these countries over the longer term.

As a measure of success, these countries should become less dependent on aid dollars over time and better able to attract private sector financing, including foreign direct investment (FDI). Currently, five emerging market economies account for 60 per cent of all FDI inflows into developing countries. The Bank should work to increase the number of recipients receiving significant FDI flows over the next decade.

Meeting the Needs of Small States

Efforts to advance the development agenda cannot overlook the particular challenges of small states, including those in the Caribbean. The international community, led by the World Bank, must play an enhanced role in assisting small states to position themselves for success in the global economy. Despite the strong global economic growth in recent years, the economic growth of small states has failed to keep pace with larger low- and middle-income countries. In some cases, this has reflected the faster than anticipated erosion of trade preferences. As a consequence, many of these economies are falling short of reaching the MDGs. To rectify this situation, there is a dire need for better analytical work on options for growth, competitiveness, economic diversification and international trade.

The continuing loss of critical skills in small states as a result of migration also needs to be addressed. Support for human resource development is crucial as these countries expand service exports and other areas where they are competitive. On the related issue of remittances, which are an important source of foreign exchange and capital for many small states, we encourage the Bank to continue its work with other international financial institutions and partner countries to better understand these arrangements and help facilitate these transfers.

The small island states of our constituency remain at risk of natural disasters. The Bank needs to continue to work with these countries and their partners to mitigate these risks. We continue to support the Bank's development of a Catastrophe Risk Insurance Facility in the Caribbean and other small states, and call upon other donor governments and the private sector to join these efforts. A longer-term challenge is the transfer of existing and new technologies required for adaptation to new weather patterns, particularly in the key sectors relating to agriculture and water resource management. We strongly support the Bank's plan to expand analytical work to develop screening tools to assess the nature of climate risks to development projects, build the capacity of institutions and communities to better cope with the risk of natural disasters, and support the development of new and more innovative risk management tools.

Annex 3

Communiqués of the International Monetary and Financial Committee of the Board of Governors of the International Monetary Fund

Washington, DC
April 22, 2006

1. The International Monetary and Financial Committee held its thirteenth meeting in Washington, D.C. on April 22, 2006 under the Chairmanship of Mr. Gordon Brown, Chancellor of the Exchequer of the United Kingdom.

The Global Economy and Financial Markets—Outlook, Risks, and Policy Responses

2. The Committee welcomes the continued strong expansion of the global economy, despite higher oil prices. The expansion is becoming geographically more broadly based, and global growth is expected to remain strong in the next couple of years. Inflation and inflationary expectations remain well contained—although with excess capacity diminishing, continued vigilance will be required. The Committee notes that downside risks arise from continued high and volatile oil prices, the potential for an abrupt shift in global financial market conditions, a rise in protectionism, and a possible avian flu pandemic. The major risks posed by underlying vulnerabilities, including from widening global imbalances, have yet to be comprehensively addressed.

3. The Committee reiterates that action for orderly medium-term resolution of global imbalances is a shared responsibility, and will bring greater benefit to members and the international community than actions taken individually. While progress has been made, more concerted and sustained implementation—with every country doing its part—is needed to help reduce medium-term risks associated with the imbalances. Following the discussion at the Global Imbalances Conference held at the IMF on April 21, the Committee confirms that the agreed policy strategy to address imbalances remains valid. Key elements include raising national saving in the United States—with measures to reduce the budget deficit and spur private saving; implementing structural reforms to sustain growth potential and boost domestic demand in the euro area and several other countries; further structural reforms, including fiscal consolidation, in Japan; allowing greater exchange rate flexibility in a number of surplus countries in emerging Asia; and promoting efficient absorption of higher oil revenues in oil-exporting countries with strong macroeconomic policies. Given economic interlinkages, all countries and regions will have a role to play by increasing the flexibility of their economies and adapting to changing global demand patterns. The Committee therefore asks the IMF to work on modalities, in consultation with country authorities, aimed at encouraging actions needed to reduce the imbalances, and calls for a report at its next meeting. More generally, the new multilateral consultations, as outlined in the Managing Director's report on implementing the IMF's medium-term strategy, can play a role in promoting multilateral action.

4. The Committee welcomes the actions already taken to address capacity constraints in oil production. Building on this progress, it calls for further measures to improve the supply-demand balance in oil markets over the medium term, with oil producers, oil consumers, and oil companies all playing their part, including through closer dialogue. The Committee emphasizes the importance of further upstream and downstream investment, policies to promote energy efficiency, conservation, and alternative sources of energy, reducing subsidies on oil products, and further efforts to improve the quality and transparency of oil market data. The Committee will review progress on these issues at its next meeting.
5. Steps to strengthen medium-term fiscal positions remain crucial to support growth and stability, and improve resilience against future shocks. Greater advantage should be taken of the economic expansion to reduce fiscal deficits, and to move forward with reforms to ensure the sustainability of pension and health systems. The Committee also underscores that faster progress to remove constraints to growth in labor and product markets and improve the business and investment climate is essential to reap the benefits of globalization. The Committee welcomes the continued strength of the global financial system, and calls for continued vigilance by financial supervisors, especially regarding the potential impact of a turn in the credit cycle. The Committee calls on members to ensure the robustness of essential economic and financial infrastructure as part of a broad strategy to address the risk of an avian flu pandemic and, in this context, supports the IMF's outreach initiative to promote business continuity planning among financial institutions.
6. The Committee emphasizes the importance of an ambitious and successful outcome to the Doha Round by the end of 2006 for global growth and poverty reduction. The Committee calls on all members to resist protectionism in both trade and foreign direct investment. With time running increasingly short, all members must urgently contribute to reaching agreement on the key elements of a comprehensive package supporting a strengthened multilateral trading system. The Committee also calls for continued efforts to help countries take full advantage of the opportunities of global integration arising from ambitious trade liberalization. For poor countries in particular, the Committee urges Aid for Trade assistance firmly grounded in national development strategies and full use of existing and enhanced mechanisms for trade-related technical assistance.
7. The improving growth prospects in poor countries, including in Sub-Saharan Africa, are encouraging. The Committee emphasizes that achieving the Millennium Development Goals (MDGs) requires a partnership between poor countries and donors. Developing countries should continue to pursue sound macroeconomic policies and growth-critical reforms, including further substantial efforts to build sound, accountable, and transparent institutions. The international community should follow through expeditiously on its commitment to provide additional resources.

Implementing the IMF's Medium-Term Strategy

8. The Committee welcomes the Managing Director's report on implementing the IMF's medium-term strategy, and appreciates the public debate on the role of the IMF. It calls on management and the Executive Board to complete their considerations and then move rapidly to implementation.

9. The Committee reiterates that the IMF's effectiveness and credibility as a cooperative institution must be safeguarded and its governance further enhanced, emphasizing the importance of fair voice and representation for all members. We underscore the role an ad hoc increase in quotas would play in improving the distribution of quotas to reflect important changes in the weight and role of countries in the world economy. The Committee agrees on the need for fundamental reforms. The Committee calls upon the Managing Director to work with the IMFC and Executive Board to come forward with concrete proposals for agreement at the Annual Meetings.

10. The Committee reiterates the importance of making IMF surveillance more effective and supports a review of the 1977 Surveillance Decision. In the context of the Managing Director's medium-term strategy, the Committee proposes a new framework for IMF surveillance which will consist of four elements. First, a new focus of surveillance on multilateral issues, including global financial issues, and especially the spillovers from one economy on others. Second, a restatement of the commitments which member countries and their institutions make to each other under Article IV on which surveillance can focus on monetary, financial, fiscal and exchange rate policies. Third, the Managing Director should implement his proposal for a new procedure, which will involve the IMFC and the Executive Board, for multilateral surveillance. Fourth, the IMFC should set a new annual remit for both bilateral and multilateral surveillance through which the Managing Director, the Executive Board and the staff are accountable for the quality of surveillance. This should involve the independence of Fund surveillance, greater transparency and the Independent Evaluation Office.

11. As emerging market members pursue sound policies and integrate effectively into world trade and capital markets, they make a welcome contribution to global economic stability and avoidance of financial crises. The Committee welcomes the IMF's efforts to respond to the new challenges and needs of emerging market members. Financial and capital markets issues should be increasingly at the center of the IMF's work in these countries. The Committee supports further examination of the Managing Director's proposal on a possible new instrument to provide high access contingent financing for countries that have strong macroeconomic policies, sustainable debt, and transparent reporting but remain vulnerable to shocks. The Committee encourages the IMF to explore the role it can play in supporting regional arrangements for pooling reserves. A review is also needed of the operational aspects of the IMF's policy on lending into arrears.

12. The Committee stresses that the IMF has a critical role in low-income countries, including in helping to ensure that expected increases in aid flows and debt relief are absorbed effectively and in a manner consistent with macroeconomic stability. The IMF needs to play its part within its areas of core competence in monitoring progress toward the MDGs. The Committee welcomes the establishment of new instruments that will strengthen the IMF's support for low-income countries, including the Policy Support Instrument and the Exogenous Shocks Facility, and underlines the importance of further contributions to enable the IMF to provide timely concessional shock financing. The Committee welcomes debt relief provided by the IMF and other institutions under the HIPC Initiative and Multilateral Debt Relief Initiative (MDRI). It also welcomes the agreement on the final list of potentially eligible members that meet the

criteria of the HIPC Initiative. The Committee underscores the importance of ensuring debt sustainability in countries receiving debt relief by refining the joint IMF-World Bank debt sustainability framework, and helping countries to implement sound medium-term debt strategies and strong public expenditure management and tax systems. The Committee notes the importance of countries avoiding the re-accumulation of unsustainable debt and the potentially adverse consequences of nonconcessional borrowing for debt sustainability. It urges all creditors to work with the IMF and the World Bank to adhere to responsible lending. The Committee considers it critical for the effectiveness of the IMF's work in low-income countries that its policy advice, support for capacity building, and financial assistance are closely aligned with the countries' evolving needs and poverty reduction strategies, and focused on macroeconomic issues, including institutions relevant to financial stability, trade, and economic growth.

13. The Committee supports efforts to clarify the division of responsibilities and accountabilities of the IMF and the World Bank, and to improve their collaboration. It welcomes the establishment of the External Review Committee on World Bank-IMF Collaboration, and looks forward to its conclusions.

14. The Committee notes that the IMF's budgetary position has changed following the recent decline in IMF credit, and this requires actions on both income and expenditure. The Committee calls on the Managing Director to develop proposals expeditiously for more predictable and stable sources of income. The Committee welcomes that the medium-term strategy is formulated in a budget-neutral way, and encourages the IMF to further prioritize and streamline its work.

Other Issues

15. The Committee recommends members' acceptance of the Fourth Amendment of the Articles of Agreement. The Committee calls for continued actions by all countries to develop strong programs on anti-money laundering and combating the financing of terrorism (AML/CFT), and supports the comprehensive assessment of these programs within the context of the Financial Sector Assessment Program.

16. The Committee notes the upcoming discussion by the Executive Board of the external evaluation of the Independent Evaluation Office (IEO), and looks forward to the continuing contribution of the IEO to the IMF's work.

17. The next meeting of the IMFC will be held in Singapore, on September 17, 2006.

Singapore
September 17, 2006

1. The International Monetary and Financial Committee held its fourteenth meeting in Singapore on September 17, 2006 under the Chairmanship of Mr. Gordon Brown, Chancellor of the Exchequer of the United Kingdom. The Committee expresses its gratitude to the Singapore authorities for the excellent arrangements.

Quota and Voice Reform in the IMF

2. Following the call at our last meeting to safeguard and enhance the IMF's effectiveness and credibility, the Committee stresses the importance of IMF quota and voice reforms. The Executive Board has submitted a comprehensive two-year program of quota and voice reforms in a draft resolution to the Board of Governors. Subject to the adoption of the resolution, the September 2006 meetings would initiate an integrated set of reforms, to be completed no later than by the 2008 Annual Meetings. Starting with initial quota increases for China, Korea, Mexico, and Turkey, this package of reforms, when implemented, would make significant progress in realigning quota shares with members' relative positions in the world economy and, equally important, in enhancing the participation and voice of low-income countries in the IMF as set out in the resolution. The Committee urges the Executive Board to work constructively and expeditiously on all elements of the reforms so as to garner the broadest possible support, underlines the importance of timely implementation of the program, and calls on the Managing Director to provide a status report at its next meeting.

The Global Economy and Financial Markets—Outlook, Risks, and Policy Responses

3. The Committee welcomes the ongoing strong and broad-based global economic expansion. Growth is expected to remain robust in 2007. However, there are downside risks from the possibility of a continued build-up of inflationary pressures, a slowdown in consumption in a number of countries, continuing high and volatile energy prices, and the spread of protectionism. The Committee agrees that in the period ahead the IMF should focus on supporting its members in promoting policies for: reducing global imbalances while sustaining global growth; addressing the impact of high oil prices, in particular on the most vulnerable countries; managing the likely transition to less generous liquidity conditions; and ensuring medium-term fiscal sustainability and financial stability. The Committee underscores that reinvigorating the momentum of multilateral trade liberalization is critical so as to sustain and strengthen the foundations of global growth.

4. In the advanced economies, monetary policy will need to continue solidly anchoring inflation expectations and to balance the relative risks to price stability and growth. The current favorable economic environment provides an opportunity for ambitious fiscal consolidation, backed up with credible policy measures to put social security and health care systems on sounder footings to cope with the challenges of population aging. Growth prospects should be bolstered by structural reforms needed in many countries to improve the business environment and product market flexibility, enhance the capacity of labor to adapt to globalization, and spur productivity advances.

5. In emerging market and other developing countries, improved fundamentals have underpinned the resilience of growth to high oil prices and tighter global financial conditions. Growth performance, especially in emerging Asia, has benefited from market-oriented reforms, open trade, and competition. In countries where vulnerabilities remain, further efforts are needed to strengthen public sector balance sheets, anchor inflation expectations, improve the functioning of financial sectors, and ensure the sustainability of external positions.

6. Growth in low-income countries overall, including in Sub-Saharan Africa, remains strong. The Committee emphasizes the importance of a strong partnership between poor countries and donors to underpin further efforts to accelerate growth to help achieve the Millennium Development Goals (MDGs). Countries should persevere with sound macroeconomic policies, strengthening institutions, and growth-critical reforms. The international community should also support countries' own poverty reduction efforts with increased and more effective aid, agreed debt relief, and bold market-opening initiatives.

7. The Committee calls for sustained actions to implement the agreed policy strategy to underpin an orderly unwinding of global imbalances. The strategy involves: steps to boost national saving in the United States, including fiscal consolidation; further progress on growth-enhancing reforms in Europe; further structural reforms, including fiscal consolidation, in Japan; reforms to boost domestic demand in emerging Asia, together with greater exchange rate flexibility in a number of surplus countries; and increased spending consistent with absorptive capacity and macroeconomic stability in oil producing countries. The Committee welcomes the multilateral consultation by the IMF, which provides an opportunity to support the agreed policy strategy.

8. The Committee remains concerned about high and volatile prices in world energy markets. It welcomes the actions taken to address capacity constraints in oil production, and calls for continued measures from all sides to improve the supply-demand balance in oil markets over the medium term. This will involve increased investment to build up adequate production and refining capacity, incentives to encourage energy conservation by consumers, steps to improve the quality and transparency of oil data, and closer dialogue among oil producers and consumers. The Committee also calls on the IMF to continue to provide advice and support—in particular, to its low-income members—to help countries adjust to high oil prices.

9. Following our meeting with business leaders, we reconfirm our shared commitment to strengthen the foundations of a globalized economic and financial system that promotes growth and poverty reduction and provides equitable opportunities for all. The Committee also received a report on the current status of the multilateral trade negotiations under the Doha Round from Mr. Pascal Lamy, Director-General of the WTO. The Committee expresses its deep disappointment that the trade negotiations have been suspended. It urges all WTO members to maintain their commitment to the rules-based multilateral trading system, resist protectionist calls, and preserve progress that has already been made. The Committee calls for leadership from the major trading nations to work urgently toward an early resumption of the negotiations, and an ambitious, successful outcome by the end of the year, based on a commitment to a comprehensive package on agriculture, industrial products, and services, to which all countries will need to contribute.

10. The Committee recognizes the importance of achieving the MDGs. In this context it also stresses the importance of implementing Aid-for-Trade assistance, which is firmly grounded in national development strategies, independent of progress on the Doha Round. We welcome the reports of the taskforces on the Integrated Framework and on Aid for Trade and the financing commitments by donors for the enhanced Integrated Framework.

Implementation of the IMF's Medium-Term Strategy

11. Following the agreement at its last meeting, the Committee welcomes the progress made in the reform of the IMF surveillance framework. It welcomes the steps to put greater focus on financial and capital market issues in the IMF's work. The Committee welcomes the multilateral consultation approach, which aims at fostering discussion and cooperation on common economic and financial issues. The Committee looks forward to the conclusions of the first multilateral consultation on global imbalances, and proposals by the Managing Director for possible further consultations and work on issues of multilateral concern. The Committee welcomes the ongoing review with a view to updating the 1977 Decision on Surveillance over Exchange Rate Policies to secure a common understanding and consensus on the responsibilities under Article IV and the foundations and objectives of surveillance, covering monetary, fiscal, financial, and exchange rate policies. The Committee takes note of the work to date by the Board on a remit for surveillance, which would provide a statement of objectives, priorities, and responsibilities for the medium term, and it looks forward to further work as part of the wider program to improve the effectiveness of surveillance. The Committee will discuss progress on the remit at its Spring meeting.

12. The Committee supports the strengthening of IMF policies to better assist its emerging market members. The Committee welcomes the recent discussion in the Executive Board on a new liquidity instrument for countries that are active in international capital markets, aimed at supporting these countries' own strong policies, and ensuring that substantial financing will be available if needed while safeguarding IMF resources. The Committee calls on the Executive Board to continue its work on the necessary design features of a new instrument, while paying due regard to the interaction with existing IMF facilities, and invites the Managing Director to present a concrete proposal by the time of its next meeting. The Committee also looks forward to the upcoming review of the IMF's policy on lending into arrears.

13. The Committee considers that the IMF should give priority to enhancing the effectiveness of its work in low-income countries by focusing on sustainable growth and macro-critical areas that support the achievement of the MDGs. It welcomes implementation of the MDRI by the IMF, World Bank, and African Development Bank; the provision of debt relief under the HIPC Initiative to two further countries (Cameroon and Malawi); and the decision to grandfather all eligible HIPCs when the sunset clause of the HIPC Initiative takes effect at end-2006. The Committee underscores the importance of helping countries reap the benefits of higher aid and debt relief, and avoid a new build-up of unsustainable debt. The Committee stresses that the debt sustainability framework jointly developed by the IMF and the World Bank is the primary tool to be used by borrowers and creditors in assessing alternative financing strategies, identifying emerging debt-related vulnerabilities, and developing coherent lending practices, and urges all creditors and borrowers to use the framework in their lending and borrowing decisions. The Committee urges all creditors to work with the IMF and the World Bank to adhere to responsible lending. The Committee looks forward to further refinements to the framework and the development of practical guidelines for borrowers and creditors.

14. At its next meeting, the Committee will consider further work on ways to enhance collaboration and clarify the division of responsibilities and accountabilities between the IMF and the World Bank, taking account of the work of the External Review Committee on World Bank-IMF Collaboration.

15. The Committee looks forward to the development of proposals for more predictable and stable sources of IMF income, in the context of the IMF's overall budgetary position. It looks forward to the recommendations of the Committee of Eminent Persons appointed by the Managing Director.

Other Issues

16. The Committee calls for closer cooperation between the IMF and Financial Action Task Force in promoting stronger implementation of international anti-money laundering and combating terrorist financing (AML/CFT) standards and encourages publication of comprehensive country evaluations.
17. The Committee recommends members' acceptance of the Fourth Amendment of the Articles of Agreement.
18. The Committee welcomes the external evaluation of the Independent Evaluation Office (IEO). The IEO is continuing to make a valuable contribution to the IMF's learning culture and facilitating oversight and governance.
19. The Committee expresses its heartfelt appreciation to Anne Krueger for her exceptional contributions to a shared vision of a globalized economy providing equitable opportunities for all, and for serving the IMF and its membership with unwavering dedication and decisive intellectual leadership. It extends a warm welcome to John Lipsky, who has succeeded her as First Deputy Managing Director. The Committee also expresses its appreciation of the work of Raghuram Rajan as Economic Counsellor.
20. The next meeting of the IMFC will be held in Washington, D.C. on April 14, 2007.

Annex 4

Communiqués of the Development Committee of the Boards of Governors of the World Bank and International Monetary Fund

Washington, DC
April 23, 2006

1. Following the important commitments made last year to increase the quantity, quality and effective use of resources for development, we reviewed progress towards the Millennium Development Goals (MDGs) based on an assessment in the third annual Global Monitoring Report. We reaffirmed the principle of mutual accountability of developing countries, developed countries, and the international financial institutions for making progress on this agenda, focusing on aid, trade and governance. We also discussed clean energy and development, an issue that requires as a priority the attention of global policy makers.

2. We welcomed recent progress made in reducing income poverty, reflecting both a favorable global economic environment and improved economic management in many countries. We are encouraged that growth in Sub-Saharan Africa exceeded 5% for the third consecutive year. We recognized that progress is uneven and insufficient, particularly in Sub-Saharan Africa and in some regions of middle income countries (MICs). There are also signs of better progress towards the human development MDGs. Yet, on current trends many developing countries will fail to meet the MDGs, in particular those related to human development. Achieving rapid, sustained, and shared growth will require further actions to improve the business climate, access to infrastructure, enhanced market access and trade opportunities as well as measures to address issues of equity, including gender equity.

3. We welcomed the rising trend in the volume of official development assistance (ODA), not only from the OECD Development Assistance Committee members, but also from non-DAC countries. We called on all donors to fully implement the commitments they have made for substantial increases in aid volumes. We urged those donors that have not done so to make concrete efforts towards the target of 0.7 percent of GNI as ODA in accordance with their commitments. We noted progress made on the International Finance Facility for immunization and on Advance Market Commitments for vaccines, increased support for an airline ticket solidarity levy and its implementation by several countries, and continuing work on the scope for greater use of blending arrangements. We noted the key role of the World Bank and the IMF in helping countries ensure that increases in aid volumes can be absorbed effectively, consistent with macro-economic stability and growth objectives. We welcomed creation of the Exogenous Shocks Facility and Policy Support Instrument at the Fund, both of which help improve its flexibility in engaging with low-income countries.

   We also noted the rising trend of net private flows to developing countries, including remittances.

4. We called for rapid progress in implementing the framework agreed in the Paris Declaration for enhancing aid effectiveness through improved modalities and a stronger focus on results. Developing countries need to strengthen their management of financial resources, and improve their domestic resource mobilization as well as governance and delivery of basic services. Donors and other partners need to improve the quality of aid, modalities of aid delivery to reduce volatility, achieve greater predictability, and provide stronger alignment with national poverty reduction strategies. To this end, we encouraged donors where possible to move towards multiyear plans and commitments, and to be ready to finance recurrent costs where sector

policies are sound and fiduciary conditions are adequate. We asked the World Bank and other partners to intensify their coordination at the country level, particularly in strengthening health systems and improving access to good quality education, to reduce transaction costs and to help increase absorptive capacity. We emphasized the importance of universal access to primary education and sustained support for good quality education plans, and the key role the Education for All - Fast Track Initiative could play in all qualifying low income countries. We called on donors to fill the current financing gap. We asked for a progress report on Education for All by our next meeting. We encouraged the Bank to implement the proposal to hold annual Results and Resources Consultative Groups in its Africa Action Plan. We also emphasized the need for the multilateral development banks (MDBs) to strengthen their results orientation, so as to contribute better to improved country outcomes. We look forward to the first World Bank report on results monitoring and systems to strengthen both country and institutional incentives and assure learning from results. In this context, we urged all MDBs and all donors to step up support for strengthening statistical and related institutional capacity in partner countries.

5. We noted the importance of continued development progress in MICs and emerging market countries, and asked the Bank to refine and enhance its engagement strategy with these countries by our next meeting, taking into account their contributions to poverty reduction and global public goods, access to market financing, and remaining development challenges.

6. Promoting good governance, including fighting corruption, and mutual accountability are essential to efforts to achieve the MDGs. We agreed on the need for efforts to improve governance in all countries, to help build effective states with strong national systems and to work together on implementing global initiatives to improve governance, increase transparency and build demand for good governance at the country level in a way that strengthens ownership. The Bank and Fund should play a full supporting role. We asked the Bank to further develop disaggregated and actionable indicators in areas such as quality of public financial management, and procurement practices. We noted the diagnosis in the Global Monitoring Report that a significant level of corruption is a symptom of poor governance. Building on work over the last decade, we called on the Bank to lay out a broad strategy, to be discussed at our next meeting, for helping member countries strengthen governance and deepen the fight against corruption, working closely with the Fund, other multilateral development banks and the membership, to ensure a coherent, fair and effective approach. This strategy should lead to clear guidelines for operations.

7. We welcomed the progress made in implementing the Multilateral Debt Relief Initiative (MDRI) in the Fund, the International Development Association (IDA), and the African Development Fund, and, in particular, cancellation by the IMF of the MDRI debt of the first 19 countries, and, in the Bank, the approval of the required Resolution by the IDA Governors leading to final agreement on the Initiative. We urged donor countries to secure their financing commitments to achieve full compensation of IDA's foregone reflows and to ensure that this initiative is truly additional to existing commitments. We called on the Bank and the Fund in consultation with the membership to bring forward proposals to further refine the debt sustainability framework for low-income countries to support growth and avoid accumulation of unsustainable debt, and, in this context, to further elaborate and implement an effective approach to deal with the issue of "free-riding" where non-concessional lenders may indirectly obtain financial gain from IDA's grants and debt forgiveness. We called for participation of all export credit agencies, IFIs, and other official creditors, in such an approach and encouraged them to use the debt sustainability framework in their lending decisions. We also noted the final list of potentially eligible countries for the HIPC initiative and the initial cost estimate of debt relief for these countries.

8. Implementation of the Doha Development Agenda is a critical complement to other efforts to increase growth and reduce global poverty. After modest progress at the Hong Kong ministerial meeting in December 2005, we urged all WTO members to step up their efforts to reach a successful conclusion to the Doha Round by the end of this year. We welcomed a significant increase in donor commitments for aid for trade, and creation of a task force in the WTO to make recommendations on how to operationalize aid for trade, recognizing that this is a complement not a substitute for a successful Doha Round. We asked the Bank and the Fund to further examine cross-country and regional aid for trade needs by our next meeting and deepen their work to integrate trade-related needs into their support for country programs. We also asked the Bank and the Fund to continue their global advocacy on trade and development.
9. The global community faces a major challenge in securing affordable and cost-effective energy supplies to underpin economic growth and poverty reduction while preserving the environment. These need not be conflicting goals. We recognized lack of access to energy as an acute problem in many low income countries. We agreed to explore ways to help developing countries enhance their access to affordable, sustainable and reliable modern energy services over the long term, while paying attention to local and global environmental considerations. We also urged them to do so through policy reform to attract domestic and international investment in clean and efficient energy services. We also noted that adaptation to climate change for poor countries is a critical development issue. We reaffirmed our commitment to the goals of the United Nations Framework Convention on Climate Change. We found broad support for the Bank's approach in addressing 1) developing country energy needs and access to energy services, 2) efforts to control greenhouse gas emissions, and 3) helping developing countries adapt to climate risks, and the two track work program. We asked the Bank to review, in close coordination with other partners, existing financial instruments, taking into account the role of the private sector; and to explore the potential value of new financial instruments to accelerate investment in clean, sustainable, cost effective and efficient energy; so as to report on progress towards an investment framework by our next meeting. We urged member countries of the Global Environment Facility to conclude the fourth replenishment negotiation as soon as possible.
10. Avian Influenza poses a major risk for all countries but more particularly for developing countries. We called for continued coordination and planning by countries and agencies at the international and regional levels and, within countries, continued coordination across relevant ministries. We also welcomed the Bank's rapid operational response under the Global Program for Avian Influenza.
11. We welcomed the interim report on how fiscal policy can best support long term growth, and its emphasis on specific country experiences. We look forward to the final report in early 2007.
12. We noted the creation of the External Review Committee to review various aspects of Bank-Fund collaboration, and look forward to considering its findings and recommendations. We ask the Bank and Fund to ensure that their institutional responsibilities continue to cover all the critical issues relating to reaching the MDGs within their mandates.
13. We welcomed the discussion of quota and voice issues in the Fund, and confirmed our intention to continue our discussions with a view to building the necessary political consensus on the voice issue in the Bank.
14. We welcomed the new Chairman Alberto Carrasquilla. We thanked Zia Qureshi for his services as Interim Executive Secretary to the Committee and welcomed the appointment of Kiyoshi Kodera as new Executive Secretary.
15. The Committee's next meeting is scheduled for September 18, 2006 in Singapore.

Singapore
September 18, 2006

1. We met today to discuss progress in implementing the development agenda for achieving the Millennium Development Goals (MDGs). We reviewed the World Bank's proposed governance and anticorruption strategy, and the priorities for its evolving engagement with middle-income countries. We also celebrated the 50th anniversary of the International Finance Corporation, which has contributed to fostering sustainable private sector development and promoting market development in developing countries.
2. Building on five consecutive years of strong growth, policymakers in developing countries now need to prepare for a more challenging global environment. This will entail maintaining macroeconomic stability, further strengthening public sector financial management, and continuing to improve domestic resource mobilization. More also needs to be done to improve the business climate and governance.
3. The pledges made last year to substantially increase the volume of official development assistance (ODA), including a doubling of aid to Africa by 2010, must be delivered in a predictable manner. We urged those donors that have not done so to make concrete efforts towards the target of 0.7 percent of Gross National Income as ODA in accordance with their commitments. We look forward to a successful IDA 15 replenishment next year and urged donors to ensure that their commitments to make the multilateral debt relief initiative (MDRI) and the Heavily Indebted Poor Countries (HIPC) Initiative additional to other aid flows be met. We noted the substantial progress made on Advance Market Commitments for vaccines and the work in progress in order to launch a pilot project by the end of 2006. We also welcomed the launch of the International Financing Facility for Immunization and of the International Drug Purchase Facility. We asked the Bank, within its overall strategy, to develop a framework for its role in the provision of global and regional public goods including criteria for its involvement and financing modalities.
4. The international commitments to improve aid effectiveness embodied in the principles of the Paris Declaration must now be consistently translated into action at the country level. We called on the Bank to deliver on its commitments to scaling up and aid effectiveness, including the implementation of the best practice principles identified in the Bank's conditionality review. We noted the country-based "results and resources meetings" approach to facilitate scaling up aid now being piloted in several African countries with the help of the Bank and the Development Assistance Committee, and urged developing countries to prepare well-defined and costed programs for using scaled up aid to step up the poverty reduction effort. Noting the Bank's role in helping to ensure that additional assistance is effectively coordinated and aligned with country priorities, we asked for a progress report on the Bank's Africa Action Plan at our next meeting. We welcomed the Bank's Gender Action Plan to expand women's economic opportunities in developing countries. We also looked forward to hearing about progress towards achieving the gender MDGs in the next Global Monitoring Report.
5. We welcomed the progress report on Education for All-Fast Track Initiative (EFA-FTI), and the contribution it is making to increasing primary school completion rates. The initiative offers a promising approach to donor harmonization and scaling up at the sectoral level. We recognized the importance of country ownership and the quality of education, and the need to expand the initiative to larger countries and fragile states. We called for predictable and long-term funding for this initiative, including domestic funding. We also urged the Bank to strengthen its work on measurement of learning outcomes in order to ensure continuous attention to the quality of education. In this regard, we look forward to a further update on progress to the Board.

6. September 2006 marks the tenth anniversary of the HIPC Initiative. We welcomed the substantial reduction of debt stocks and noted the increase of poverty-reducing expenditures of the 29 HIPCs that have reached the decision point. We also welcomed the decision to allow the sunset clause to take effect at end-2006 and to grandfather the countries that are assessed to have met the HIPC criteria based on end-2004 data. We welcomed the implementation of the MDRI by the IMF, IDA and the African Development Fund. Debt relief has provided many low-income countries with additional resources that can be used to make progress towards the MDGs. We cautioned against excessive borrowing after the relief which may lead to re-emergence of debt distress. We therefore underscored the importance of the Joint Debt Sustainability Framework of the Fund and the Bank for low-income countries in helping ensure that new borrowing in post-MDRI countries does not undermine their long-term debt sustainability, and look forward to the review of the framework. We asked all the multilateral development banks, bilateral donors, export credit agencies and commercial creditors to adhere to this framework. We stressed the importance of implementing the Bank's approach to deal with the issue of free riding and the need to address the issues of official creditors' coordination. We also stressed the importance of Bank and IMF support for strengthening public financial management including, debt management.
7. The de facto suspension of the Doha negotiations represents a setback in our effort to make more rapid progress towards achieving the MDGs. We re-emphasized the importance of the multilateral trading system and called upon all WTO members to avoid backsliding and provide trade ministers with the necessary flexibility to resume the negotiations by the end of the year. We also called on the Bank and the Fund to continue their global advocacy role on trade and development, and to foster the integration of trade into country programs. While recognizing that aid for trade is not a substitute for trade liberalization, we reiterated our commitment to expanding the funding and strengthening the mechanisms for Aid for Trade. We welcomed the recommendations of the WTO Task Forces on Aid for Trade and the Integrated Framework (IF), both of which explicitly recognize the need to adhere to the Paris Declaration on aid effectiveness. We took note of the new governance mechanisms proposed for the enhanced IF, and reiterated the importance of working through established channels with proven development expertise. We noted the interest in extending a similar process to other poor countries that are not Least Developed Countries. We urged the Bank to work with these countries to incorporate trade needs into their national development strategies. We also agreed on the need to improve existing instruments to address cross-country and regional projects and strengthen the monitoring of regional initiatives and funding.
8. Actions to promote good governance are crucial to successful development and poverty reduction, and helping member countries on these issues is therefore important to the Bank's mission and to achieving the MDGs. Tackling corruption effectively and firmly is a significant part of this. The principal objective of the Bank's governance work should be to help develop capable and accountable states to deliver services to the poor, promote, private sector led growth and tackle corruption effectively. We supported the Bank's engagement in governance and anticorruption work. Country ownership and leadership are key to successful implementation. Governments are the key partners of the Bank in governance and anticorruption programs, while, within its mandate, the Bank should be open to involvement with a broad range of domestic institutions taking into account the specificities of each country. We also emphasized that predictability, transparency, and consistent and equal treatment across member countries are the Bank's guiding principles. In stepping up attention to governance and anticorruption in Country Assistance Strategies, we asked the Bank to further develop and use disaggregated and actionable indicators, recognizing that IDA resources will continue to be allocated through the existing

Country Performance and Institutional Assessment and Performance Based Allocation system. We recognized that the strategy will evolve with implementation and in the light of experience, but the paper sets out a framework for continued Bank engagement in this work and the further consultation which is planned with partner countries, with the Fund and with other donors and multilaterals, with civil society, and with the private sector. Given the importance of this issue, we stressed the importance of Board oversight of the strategy as it is further developed and then implemented, and we look forward to a report from the Board at our next meeting.

9. Middle income and emerging market countries (MICs), partner countries of the IBRD, are home to 70% of the world's poor. They constitute an extremely diverse group of countries. While many of them have made dramatic improvements in economic management and governance over the past two decades, as a group they still face major challenges of poverty reduction and development and in their contribution to provision of important regional and global public goods. We strongly endorsed the statement of the Bank's corporate role and mission to eradicate poverty in its partnership with MICs. We reviewed the Bank's proposals to strengthen the IBRD's value-added and engagement in response to the evolving and diverse needs of middle-income countries. We recognized that as MICs develop they will eventually graduate from IBRD lending. We also noted that in parallel, in implementing its medium-term strategy, the IMF is making efforts to adapt, better focus, and enhance its engagement with emerging market countries. We welcomed the Bank's proposals to deliver better and more flexible country partnership strategies reflecting diverse country circumstances; to reduce the cost of doing business with the Bank by streamlining internal Bank procedures; to simplify loan pricing and make its products more competitive; to develop new ways to help countries facing external shocks; to increase provision of fee based expert services, unbundled from lending; to continue to work towards scaling up Bank Group lending to sub-national entities within frameworks agreed with national governments; and to better exploit synergies between the different arms of the Bank Group within their respective mandates. Increasing the use of country systems where mutually agreed and verifiable standards are in place to ensure effective execution is an important part of this agenda for scaling up development impact. We encouraged the Bank to give greater emphasis to issues of regional and global concern in areas where it has a comparative advantage. We also called for deeper cooperation between the Bank, regional development banks and other development partners in their engagement with MICs, and encouraged the Bank to develop a menu of options to respond to country demand-driven initiatives for targeted blending of concessional donor support with multilateral development bank loans in cases of market failure or where there are affordability issues.

10. We welcomed the progress made in developing a Clean Energy Investment Framework, including the review of the adequacy of existing financial instruments. The global community faces a major challenge in securing affordable and cost-effective energy supplies to underpin economic growth and poverty reduction while preserving the local and global environment. We agreed that this challenge requires sound country energy policies and regulatory frameworks. We found broad support for the Bank's approach in addressing the three inter-related issues of: (i) energy for development and access to affordable energy for the poor; (ii) the transition to a low carbon economy; and (iii) adaptation, and support continued work on each of them. In particular, we recognized lack of access to energy as an acute problem in many low income countries, especially in Sub Saharan Africa, supported the Action Plan for improved energy access and urged donors to provide additional funding and other assistance required. We encouraged activities that cost-effectively and sustainably promote the transition to a low-carbon economy, respecting circumstances of individual economies, without hindering the growth of developing countries and mitigating the incremental costs to them. We asked the Bank to work with the

regional development banks, United Nations agencies, the Global Environment Facility (GEF), private sectors and other interested parties to maximize the use of existing instruments. We support further examination of the future Bank role in the transition to a lower-carbon economy, taking into account all issues raised in the progress report and recognizing the primary institutional responsibility of the UN Framework Convention Climate Change. We asked the Bank, in close coordination with the GEF, to continue to work on further exploring financing options to support investment in clean energy for development. We welcomed the Bank's proposal to consider new means and mechanisms to make pricing of existing instruments more transparent and competitive to provide incentives and resources to countries to pursue clean energy alternatives. We also stressed the need to develop strategies, tools and financing to help meet the challenge of adaptation to increased climate variability, which can adversely affect the livelihoods of people, especially the poor, and undermines the achievement of the MDGs. We noted the value of protecting future investments from climate volatility.

11. We look forward to considering the findings of the External Review Committee to review various aspects of Bank-Fund collaboration. We asked the Bank and the Fund to ensure that their institutional responsibilities continue to cover all the critical issues relating to reaching the MDGs within their mandates.

12. We welcomed the Managing Director's report on progress made in the reform of IMF quotas and voice. Acknowledging the measures already taken by the Bank to enhance capacity in EDs' offices and capitals of developing and transition countries, we asked the Bank to work with its shareholders to consider enhancement in voice and participation in the governance of the Bank.

13. We wish to thank the authorities and people of Singapore for their excellent hospitality and facilities.

14. The Committee's next meeting is scheduled for April 15, 2007 in Washington, D.C.

Annex 5

Operational Highlights and Key Financial Indicators for the Bretton Woods Institutions

International Monetary Fund[5]

IMF-related assets declined by 10 per cent in FY2006 compared to FY2005, reflecting the recent decline in outstanding credit to member countries. The table of IMF resource flows illustrates that the flow of repayments was larger than the flow of disbursements; the table of outstanding IMF credit shows the distribution of the impacts of these repayments.

Official Holdings of Reserve Assets as of April 30

	FY2005	FY2006[1]
	(billions of SDRs)	
Reserve positions in the Fund	28.6	22.2
SDRs	20.1	17.3
Foreign exchange	2,918.8	3,014.6
Gold	316.6	355.2
Total	**3,284.0**	**3,409.3**

[1] As of March 2006

IMF Resource Flows (January 1 to December 31)

	FY2005	FY2006
	(billions of SDRs)	
Total purchases	2.7	2.9
Of which:		
General Resources Account (GRA)	2.3	2.4
Poverty Reduction and Growth Facility (PRGF)	0.4	0.5
Total repurchases	30.1	23.9
Net purchases	-27.4	-21.0

Outstanding Credit by Facility and Policy as of April 30

	FY2005	FY2006
	(millions of SDRs)	
Stand-By Arrangement	35,818	11,666
Extended arrangements	9,365	7,477
Supplemental Reserve Facility	4,569	–
Compensatory and Contingency Financing Facility	84	84
Systemic Transformation Facility	18	–
Subtotal GRA	**49,854**	**19,227**
Structural Adjustment Facility arrangements	45	9
PRGF arrangements	6,588	3,819
Trust Fund	89	89
Total	**56,576**	**23,144**

[5] All data in this section can be found in the IMF annual reports.

The remainder of the tables in this annex are an overview of consolidated balance sheets and related consolidated statements of income, changes in reserves and resources and cash flows.

The IMF conducts its operations and transactions through the General Department and the Special Drawing Rights Department (the SDR Department). The General Department consists of the General Resources Account (GRA), the Special Disbursement Account (SDA), including the Multilateral Debt Relief Initiative-I Trust (MDRI-I Trust), over which the SDA has substantial control, and the Investment Account.

General Department. The GRA holds the general resources of the IMF, which reflect the payment of quota subscriptions, use and repayment of IMF credit, collection of charges on the use of credit, payment of remuneration on creditor positions, borrowings, and payment of interest and repayment of borrowings. The assets and resources of the SDA are held separately from the GRA and the Investment Account. The SDA is the vehicle for receiving and investing profits from the sale of the IMF's gold and for making transfers to other accounts for special purposes authorized in the Articles, in particular for financial assistance on special terms to low-income members of the IMF. Transfers to the Investment Account from the GRA were approved on April 30, 2006, and were made subsequent to FY2006.

Special Drawing Rights Department. The SDR is an international interest-bearing reserve asset created by the IMF. All transactions and operations involving SDRs are conducted through the SDR Department. SDRs may be allocated by the IMF, as a supplement to existing reserve assets, to members participating in the SDR Department. The resources of the SDR Department are held separately from the assets of all the other accounts of, or administered by, the IMF. They may not be used to meet the liability, obligations or losses of the Fund incurred in the operations of the General Department or other accounts. However, the SDR Department reimburses the General Department for expenses incurred in conducting the business of the SDR Department.

The IMF also administers trusts and accounts established to perform financial and technical services and financial operations consistent with the purposes of the IMF. Members or the IMF contribute the resources of these trusts and accounts through the SDA. With the exception of the MDRI-I Trust, whose financial statements are consolidated with those of the General Department, the financial statements of the SDR Department and these trusts and accounts are presented separately. More details on the purpose and administration of these accounts are available in the 2006 IMF Annual Report.

Highlights of IMF Financial Statements

General Department	FY2005	FY2006
	(millions of SDRs)	
Total assets	223,755	221,721
Net income (loss)	461	(2,320)
Administrative expenses	673	693
Usable currencies and SDRs at end of FY	122,963	154,773

SDR Department	FY2005	FY2006
	(millions of SDRs)	
Total assets	8,213	8,332
Revenue	175	247
Expenses	175	247
Administrative expenses	1.5	1.2
Net income	–	–
Total receipts of SDRs	10,632	13,005
Total uses of SDRs	10,632	13,005
Cash flows from operating activities	–	–
Total holdings at end of FY	21,522	21,469

Poverty Reduction and Growth Facility and Exogenous Shocks Facility Trust	FY2005	FY2006
	(millions of SDRs)	
Total assets	12,460	9,479
Resources	4,994	4,449
Net income (loss)	68,696	(545,765)
Cash and cash equivalents at end of FY	1,946	747
Loan disbursements	(771)	(403)
Loan repayments	882	3,171

PRGF-HIPC Trust and Related Accounts	FY2005	FY2006
	(millions of SDRs)	
Total assets	1,211	1,251
Resource balance at end of FY	599	640
Cash and cash equivalents at end of FY	503	347

Multilateral Debt Relief Initiative-II Trust	FY2005	FY2006
	(millions of SDRs)	
Total assets	n/a	69
Balance at end of FY	n/a	–
Cash and cash equivalents at end of FY	n/a	44

World Bank Group[6]

Operational highlights and key financial indicators for World Bank Group associations are summarized in the following table. As shown in the table, World Bank Group operations continued to grow during fiscal year 2006 (ending June 30, 2006). The IBRD increased its lending commitments by 3.5 per cent and IDA increased its concessional lending activities by 9 per cent in FY2006 compared to FY2005. The IFC increased private sector investment activities by 11 per cent and MIGA increased its political insurance activities by 6 per cent in FY2006 compared to FY2005.

World Bank Group institutions all continue to maintain strong financial positions. The IBRD achieved a return on average assets of 0.8 per cent in FY2006 and maintained a sustainable debt-to-equity ratio that grew 2.7 per cent to 33 per cent in FY2006. IDA posted operating losses in FY2006 due to a change in the way operating income is calculated. As of FY2005, development grants are charged to income upon approval by IDA's Executive Directors rather than upon signing of the grant agreement by the recipient country. IDA total sources of development resources declined in FY2006 due to increased provisions for debt relief through the Heavily Indebted Poor Countries Debt Initiative and the MDRI. The IFC continues to grow rapidly and posted a strong return on investment of 3.6 per cent in FY2006 compared to 5.4 per cent in FY2005. Compared to FY2005, MIGA maintained nearly constant risk levels in its underwriting activities and continued to make a sustainable return on operating capital before provisions of 2 per cent.

Operational Highlights and Key Financial Indicators for World Bank Group Associations

International Bank for Reconstruction and Development	FY2005	FY2006
	(millions of US dollars)	
Administrative expenses	1,021	1,055
Operating income	1,320	1,740
Total assets	222,008	212,326
Cumulative commitments	407,200	420,200
Fiscal-year commitments	13,661	14,135
Number of projects	118	112
Gross disbursements	9,722	11,833
Principal repayments including prepayments	14,809	13,600
Net disbursements	(5,087)	(1,767)
Return on average assets[1] (per cent)	0.6	0.8
Equity-to-loans ratio (per cent)	30.3	33

[6] All data in this section can be found in the World Bank annual reports.

Operational Highlights and Key Financial Indicators for World Bank Group Associations *(cont'd)*

International Development Association	**FY2005**	**FY2006**
	(millions of US dollars)	
Administrative expenses	891	954
Operating income (loss)	(986)	(2,043)
Total appliccations of development resources	130,378	102,871
Cumulative commitments	161,000	170,000
Fiscal-year commitments	8,696	9,506
Number of projects	160	167
Gross disbursements	8,950	8,910
Principal repayments	1,620	1,680
Net disbursements	7,330	7,230

International Finance Corporation	**FY2005**	**FY2006**
	(millions of US dollars)	
Administrative expenses	403	436
Operating income	1,953	1,409
Total assets	39,560	38,420
Committed portfolio	24,600	21,600
Fiscal-year commitments	5,400	6,700
Number of projects	236	284
Loan and equity investments, net	11,489	12,731
Return on average assets[1] (per cent)	5.4	3.6
Debt-to-equity ratio	1.8	1.5

Multilateral Investment Guarantee Agency	**FY2005**	**FY2006**
	(millions of US dollars)	
Administrative and other expenses	32.3	31.3
Operating income	24.1	17.2
Total assets	1,198	1,282
Statutory underwriting capacity		10,216
Cumulative guarantees issued	14,700	16,000
Fiscal-year guarantees issued	1,226	1,302
Number of projects	41	41
Net exposure[2]	3,138	3,310
Operating capital/net exposure (per cent)	26.4	26.1
Return on operating capital, before provisions (per cent)	2.9	2.0

1 Return on average assets is defined as operating income for the fiscal year as a percentage of the average of total assets at the end of such fiscal year and the previous fiscal year.

2 Net exposure is maximum aggregate liability less reinsurance.

Annex 6

Active IMF Lending Arrangements—As of December 31, 2006

Member	Date of Arrangement	Expiration Date	Amount Approved	Undrawn Balance
		(in SDR millions)		
Stand-by Arrangements—Total			**7,792**	**3,872**
Bulgaria	August 6, 2004	March 31, 2007	100	100
Dominican Republic	January 31, 2005	May 31, 2007	438	193
Iraq	December 23, 2005	March 22, 2007	475	475
Macedonia, former Yugoslav Republic of	August 31, 2005	August 30, 2008	52	41
Paraguay	May 31, 2006	August 31, 2008	65	65
Turkey	May 11, 2005	May 10, 2008	6,662	2,998
Extended Fund Facility Arrangements—Total			**9**	**6**
Albania	February 1, 2006	January 31, 2009	9	6
Poverty Reduction and Growth Facility—Total			**1,809**	**819**
Afghanistan, Islamic Republic of	June 26, 2006	June 25, 2009	81	81
Albania	February 1, 2006	January 31, 2009	9	6
Armenia, Republic of	May 25, 2005	May 24, 2008	23	10
Bangladesh	June 20, 2003	June 19, 2007	400	84
Benin	August 5, 2005	August 4, 2008	6	4
Burundi	January 23, 2004	September 30, 2007	69	14
Cameroon	October 24, 2005	October 23, 2008	19	13
Central African Republic	December 22, 2006	December 21, 2009	36	36
Chad	February 16, 2005	February 15, 2008	25	21
Congo, Republic of	December 6, 2004	June 5, 2008	55	31
Georgia	June 4, 2004	June 3, 2007	98	28
Grenada	April 17, 2006	April 16, 2009	11	9
Haiti	November 20, 2006	November 19, 2009	74	46
Honduras	February 27, 2004	February 26, 2007	71	31
Kenya	November 21, 2003	February 28, 2007	225	150
Kyrgyz Republic	March 15, 2005	March 14, 2008	9	4
Madagascar	July 21, 2006	July 20, 2009	55	47
Malawi	August 5, 2005	August 4, 2008	38	23
Mali	June 23, 2004	June 22, 2007	9	3
Mauritania	December 18, 2006	December 17, 2009	16	16
Moldova, Republic of	May 5, 2006	May 4, 2009	111	67
Mozambique	July 6, 2004	July 5, 2007	11	3
Nepal	November 19, 2003	November 18, 2007	50	21
Niger	January 31, 2005	January 30, 2008	26	9
Rwanda	June 12, 2006	June 11, 2009	8	7
São Tomé and Príncipe	August 1, 2005	July 31, 2008	3	2
Sierra Leone	May 10, 2006	May 9, 2009	31	22
Tanzania	August 16, 2003	August 15, 2007	20	3
Zambia	June 16, 2004	June 15, 2007	220	28
Grand Total			**9,610**	**4,697**

Source: www.imf.org/external/fin.htm.

Annex 7

Projects Approved for IBRD and IDA Assistance in Fiscal Year 2006, by Country (July 1, 2005–June 30, 2006)

	IBRD loans		IDA loans		Total loans	
	No.	Amount	No.	Amount	No.	Amount
			(millions of US dollars)			
Afghanistan		–	6	240.0	6	240.0
Africa - Regional		–	5	537.5	5	537.5
Albania		–	3	35.4	3	35.4
Argentina	7	785.0		–	7	785.0
Armenia		–	5	66.3	5	66.3
Azerbaijan	1	200.0	4	105.8	5	305.8
Bangladesh		–	4	461.5	4	461.5
Belarus	1	50.0		–	1	50.0
Benin		–	2	66.0	2	66.0
Bhutan		–	1	15.0	1	15.0
Bosnia and Herzegovina		–	2	51.0	2	51.0
Brazil	12	1,676.3		–	12	1,676.3
Burkina Faso		–	4	196.6	4	196.6
Burundi		–	1	30.6	1	30.6
Cambodia		–	1	14.0	1	14.0
Cameroon		–	2	56.5	2	56.5
Cape Verde		–	1	10.0	1	10.0
Chile	3	60.1		–	3	60.1
China	11	1,454.3		–	11	1,454.3
Colombia	4	423.4		–	4	423.4
Costa Rica	1	30.0		–	1	30.0
Croatia	5	369.8		–	5	369.8
Democratic Republic of Congo		–	3	365.0	3	365.0
Djibouti		–	2	17.0	2	17.0
Dominican Republic	1	25.0		–	1	25.0
Ecuador	2	150.0		–	2	150.0
Egypt, Arab Republic of	3	779.6		–	3	779.6
El Salvador	3	206.0		–	3	206.0
Ethiopia		–	5	504.7	5	504.7
Gabon		–	2	40.0	2	40.0
Gambia, The		–	1	8.0	1	8.0
Georgia		–	4	35.0	4	35.0
Ghana		–	5	355.0	5	355.0
Grenada		–	1	3.5	1	3.5
Guatemala	3	179.0		–	3	179.0
Guinea		–	2	14.2	2	14.2
Guinea-Bissau		–	1	15.0	1	15.0

Projects Approved for IBRD and IDA Assistance in Fiscal Year 2006, by Country (July 1, 2005–June 30, 2006) *(cont'd)*

	IBRD loans		IDA loans		Total loans	
	No.	Amount	No.	Amount	No.	Amount
			(millions of US dollars)			
Guyana		–	2	20.9	2	20.9
Haiti		–	3	56.0	3	56.0
Honduras		–	4	97.0	4	97.0
India	2	700.0	5	716.0	7	1,416.0
Indonesia	2	480.0	2	205.0	4	685.0
Iraq		–	2	235.0	2	235.0
Jamaica		–	1	29.3	1	29.3
Kazakhstan	2	130.0		–	2	130.0
Kenya		–	1	25.0	1	25.0
Kosovo		–	1	5.5	1	5.5
Kyrgyz Republic		–	3	38.0	3	38.0
Lao, People's Democratic Republic		–	4	37.0	4	37.0
Lesotho		–	1	6.5	1	6.5
Liberia		–	1	30.0	1	30.0
Macedonia, former Yugoslav Republic of	4	86.8		–	4	86.8
Madagascar		–	3	239.8	3	239.8
Malawi		–	3	110.0	3	110.0
Maldives		–	2	7.0	2	7.0
Mali		–	3	131.4	3	131.4
Mauritania		–	1	10.0	1	10.0
Mexico	9	1,793.0		–	9	1,793.0
Moldova		–	4	42.8	4	42.8
Mongolia		–	3	26.0	3	26.0
Morocco	4	440.0		–	4	440.0
Mozambique		–	5	200.5	5	200.5
Nicaragua		–	3	79.0	3	79.0
Niger		–	2	85.0	2	85.0
Nigeria		–	3	422.0	3	422.0
Pakistan	4	315.0	12	1,182.7	16	1,497.7
Paraguay		–	1	22.0	1	22.0
Peru	4	275.0		–	4	275.0
Phillipines	3	410.0		–	3	410.0
Poland	2	269.0		–	2	269.0
Romania	3	248.5		–	3	248.5
Russian Federation	2	150.0		–	2	150.0
Rwanda		–	2	75.0	2	75.0
Senegal		–	4	135.1	4	135.1
Serbia and Montenegro		–	3	89.0	3	89.0
Sierra Leone		–	1	44.0	1	44.0
Slovak Republic	1	1.5		–	1	1.5

Projects Approved for IBRD and IDA Assistance in Fiscal Year 2006, by Country (July 1, 2005–June 30, 2006) *(cont'd)*

	IBRD loans		IDA loans		Total loans	
	No.	Amount	No.	Amount	No.	Amount
			(millions of US dollars)			
Sri Lanka		–	2	160.0	2	160.0
Tajikistan		–	5	44.0	5	44.0
Tanzania		–	9	751.0	9	751.0
Timor-Leste		–	2	7.5	2	7.5
Tunisia	2	114.0		–	2	114.0
Turkey	6	1525.4		–	6	1525.4
Uganda		–	3	235.0	3	235.0
Ukraine	3	500.7		–	3	500.7
Vietnam		–	8	767.7	8	767.7
Yemen, Republic of		–	3	115.0	3	115.0
Zambia		–	3	87.2	3	87.2
Bank-wide total	**110**	**13,827.4**	**187**	**9,813.5**	**297**	**23,641.2**

Annex 8

IBRD Loans and IDA Credits—Summary Statistics for Fiscal Year 2006 (July 1, 2005–June 30, 2006)

By Area	IBRD	IDA	Total	
	Amount	Amount	No.	Amount
		(millions of US dollars)		
Africa	0.0	4,786.6	79	4,786.6
East Asia and Pacific	2,344.3	1,057.2	36	3,401.5
Europe and Central Asia	3,531.7	512.8	64	4,044.5
Latin America and the Caribbean	5,602.8	307.7	64	5,910.5
Middle East and North Africa	1,333.6	367.0	16	1,700.6
South Asia	1,015.0	2,782.2	38	3,797.2
Total	13,827.4	9,813.5	297	23,641.2

By Theme	Total Amount
Economic Management	213.8
Environmental and Natural Resources Management	1,387.3
Financial and Private Sector Development	6,137.8
Human Development	2,600.1
Public Sector Governance	3,820.8
Rule of Law	757.6
Rural Development	2,215.8
Social Development, Gender and Inclusion	1,094.1
Social Protection and Risk Management	1,891.7
Trade and Integration	1,610.9
Urban Development	1,911.2
Total	23,641.2

Annex 9

World Bank Procurement From Canada

Disbursements by IBRD and IDA Borrowers: Goods and Services From Canada—To June 30, 2006

	IBRD	IDA	Total
	Amount	Amount	Amount
	(millions of US dollars)		
By Fiscal Year			
1997–98	82	32	114
1998–99	69	37	106
1999–00	73	22	95
2000–01	45	15	60
2001–02	48	16	64
2002–03	41	20	61
2003–04	41	30	71
2004–05*	56	35	91
2005–06*	24	14	38

* As of fiscal year 2005, data reflects goods and service contracts awarded and not payments.

IBRD Loans and IDA Credits to Developing Countries

	IBRD loans		IDA loans		Total	
	No.	Amount	No.	Amount	No.	Amount
	(millions of US dollars)					
By Fiscal Year						
1997–98	151	21,086	135	7,507	286	28,594
1998–99	131	22,182	145	6,811	276	28,994
1999–00	97	10,918	126	4,357	223	15,276
2000–01	91	10,487	134	6,763	225	17,250
2001–02	96	11,451	133	8,067	229	19,519
2002–03	99	11,230	141	7,282	240	18,513
2003–04	87	11,045	158	9,034	245	20,080
2004–05	118	13,610	160	8,696	278	22,307
2005–06	112	13,661	167	8,950	279	23,085

Note: Joint IBRD/IDA operations are counted once as IBRD operations. When more than one loan is made for a single project, the operation is counted only once.