Report on Operations Under the Bretton Woods and Related Agreements Act

2004

Canada

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International Trade and Finance Branch
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Introduction

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

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

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

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

This report has been prepared in accordance with this provision. The sections that follow review the activities and operations of first the IMF and then the Bank for the year 2004. A final section deals with issues common to both institutions. The annexes contain detailed numerical summaries of the year's

[1] In this document "World Bank" and "Bank" refer to the International Bank for Reconstruction and Development (IBRD) and the International Development Association (IDA). "World Bank Group" and "Bank Group" refer to the broader group of World Bank institutions that includes the International Finance Corporation (IFC) and the Multilateral Investment Guarantee Agency (MIGA).

activities. The 2004 spring and fall communiqués of the International Monetary and Financial Committee (IMFC) of the Board of Governors of the IMF and the Development Committee (DC) of the Boards of Governors of the World Bank and the IMF are also appended for information. The IMFC and DC are the key policy committees of the IMF and World Bank Boards of Governors, and their communiqués steer the policy direction of the two institutions.

Roles of the International Monetary Fund and World Bank

International Monetary Fund

- Oversees the international monetary system and promotes international monetary cooperation.
- Identifies financial vulnerabilities and promotes remedies to prevent financial crises.
- Promotes orderly exchange rate relations among member countries.
- Provides short- to medium-term financial support to members facing balance of payments difficulties.
- Provides support for poverty reduction through promotion of economic stability.

World Bank

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

International Monetary Fund

Overview

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

Benefits of Membership

IMF membership provides a number of specific benefits:

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

How the IMF Works

The IMF works like a credit union. It has a large pool of liquid assets, or resources, comprising convertible national currencies, special drawing rights,[2] and other widely used international currencies provided by its members, which it makes available to help members finance temporary balance of payments problems.

Members provide resources to the IMF in amounts determined by “quotas” reflecting each country’s relative importance in the world economy. A country’s quota in turn helps determine the amount of Fund resources that it may use should it experience economic difficulties. At the end of 2004 the total quota for the Fund’s 184 members was SDR 212.8 billion.

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

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

Depending on the prospective duration of the problem, these measures are agreed to as part of a Stand-By Arrangement, which typically lasts one to two years, or an Extended Fund Facility, which generally runs for three years. Short-term financing for balance of payments difficulties related to crises of market confidence is also available through the Supplemental Reserve Facility, created in December 1997.

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

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

[2] The special drawing right (SDR) is an international reserve asset created by the IMF and allocated periodically to its members as a supplement to their foreign currency and gold reserves. The SDR is also the standard unit of account for the IMF’s operations. It represents a weighted basket of four major currencies: the US dollar, the Japanese yen, the pound sterling and the euro. At the end of 2004 the exchange rate was SDR 1 = C$1.87.

Canada's Priorities at the IMF

Global Economic and Financial Stability

With the globalization of economic activity, shifts in demographics, the increased interdependence of economies, and the growth and stronger dependence on capital markets, the world economy has changed significantly since the Fund was founded 60 years ago. For this reason, the IMF has been engaged over the past several years in a process of reform aimed at making the Fund more effective in promoting greater financial stability and helping countries benefit from the opportunities of global economic integration.

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

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

In response, the Fund has adapted its key instruments—surveillance, lending and technical assistance. Despite the progress achieved, the IMF's new Managing Director, Rodrigo de Rato, has initiated discussions on the strategic directions of the Fund to help shape the evolution of its role in the international economic system over the longer term. While the Fund's core mandate remains relevant, it is useful to assess whether its way of doing business needs to change to deal effectively with the new challenges posed by changes in the global economy and financial markets.

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

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

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

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

Economic and Financial Developments in Emerging Markets

Financial conditions in most emerging markets continued to improve in 2004. JP Morgan’s Emerging Market Bond Index, which measures the yield spread between emerging market debt and comparable US Treasuries, narrowed steadily over the year, reaching historical lows by the end of the year. This significantly reduced external debt-service costs for many emerging market economies and enabled some to regain access to external sources of finance. Nevertheless, much remains to be done to reduce public debt levels to more sustainable levels and restore fiscal discipline in emerging markets. The IMF has outlined a number of structural rigidities in emerging market public finances, notably the earmarking of public funds, poor tax administration and a culture of tax evasion. A sudden reversal of private capital flows to some emerging market countries, which could be triggered by a faster-than-expected increase in US interest rates, could give rise to liquidity or solvency problems in countries with heavier financing requirements.

At 26 per cent of total credit outstanding, **Brazil** is the IMF’s largest borrower. Brazil’s economic prospects improved drastically in 2004: real gross domestic product (GDP) growth rose 6.1 per cent in the third quarter of 2004, the fastest growth in eight years, and is expected to have been 5 per cent for the year as a whole. Brazil’s 2004 growth was broadly based, with investment rising an expected 11.5 per cent and the current account surplus rising to 2 per cent of GDP. Faster growth and the strengthening of its currency improved Brazil’s debt dynamics and reduced vulnerabilities. In 2004 the government ran a primary surplus of 4.5 per cent of GDP and the public debt fell to 51 per cent (from 57 per cent in 2003); Brazil accumulated US$3.6 billion in reserves and reduced its external debt to 35.5 per cent of GDP (from 46.5 per cent in 2003). Inflation remains a concern, however, as the central bank has had to hike interest rates to combat rising inflation expectations.

Economic and financial developments in **Turkey**, the IMF’s second largest borrower with 25 per cent of total credit outstanding, continued to improve in 2004. Real GDP growth is estimated to have reached 9.0 per cent on the year, almost doubling the original 5-per-cent target set out in Turkey's IMF program. Inflation reduction has also been a major success of the 2002–2005 program, as inflation targets have been significantly undershot for the past three years. Turkey’s year-end inflation declined to 9.3 per cent in 2004, its lowest level since 1975 and substantially below the initial 12-per-cent year-end IMF-backed target. However, a by-product of Turkey's strong economic growth has been a widening of the current account deficit, which is estimated to have reached some 5 per cent of GDP in 2004, and is expected to narrow only marginally in 2005. These deficits are being financed by sizeable short-term and partly speculative flows that leave the balance of payments exposed to shocks and possible rises in global interest rates.

Economic expansion in **Argentina**, the IMF's third largest borrower with 14.5 per cent of total outstanding credit, also continued in 2004. Real GDP growth is expected to have been 8.5 per cent, down slightly from 8.8 per cent in 2003. On the demand side, strong fixed investment has been the lynchpin of growth. Strong real GDP growth has also enabled the government to boost its tax revenues significantly and increase the primary surplus to 4.4 per cent of GDP. Argentina's strong performance, however, is in part due to the fact that it has not been servicing its defaulted external debt and US$20 billion in interest has accumulated since December 2001. Indeed, Argentina's recovery may be vulnerable: Argentina's banking system needs to be recapitalized and the defaulted debt must be restructured to put Argentina's total debt onto a sustainable path. The IMF program is on hiatus and will not be restarted until the restructuring is complete and Argentina meets the "prior conditions" (i.e. fiscal reform and banking sector compensation) required by the IMF to pass the Third Review.

IMF Programs for Emerging Economies

	Brazil	Turkey	Argentina
Total amount of credit outstanding to the IMF (as of December 31, 2004)			
(US$ billions)	24.5	21.1	13.8
(% of quota)	531%	1,437%	429%

Efforts to Promote International Financial Stability: Strengthening Surveillance and Crisis Prevention

Making Surveillance More Effective

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

The Fund has made considerable progress in strengthening its surveillance operations, especially by promoting enhanced transparency in member countries and improving its analytical tools for the early identification of a country's vulnerability to crisis. However, the surveillance function needs to continue to evolve in light of changes in the world economy. In April 2004, the International Monetary and Financial Committee of the IMF's Board of Governors called for further efforts to enhance the focus, quality, persuasiveness, impact and overall effectiveness of surveillance.

With this in mind, the Fund's 2004 biennial review of the implementation of surveillance focused on how to make surveillance more effective across the whole membership. Canada endorsed the key conclusions of the review: the need for a sharper focus on the Fund's core areas of expertise, clearer and more candid treatment of exchange rate issues, enhanced financial sector coverage and better regional assessments. As well, the Fund's debt sustainability assessments would be enhanced if they were conducted independently of regular country analysis.

Improving Transparency, Accountability and Openness

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

The publication rate for country staff reports is now more than 75 per cent and almost all Fund policy papers are now released. A policy of presumed publication for all Article IV staff reports took effect in July 2004. A review of the Fund's transparency policy is planned for mid-2005.

IMF Transparency

The IMF has adopted a series of measures in recent years to improve transparency, including guidelines under which the Fund now publishes most of its own policy papers as well as detailed information about its operations and finances. The key initiatives and recent developments include the following:

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

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

With respect to accountability and openness, the IMF established the Independent Evaluation Office (IEO) in 2001 to undertake objective assessments of the IMF's operations, policies and programs. The IEO operates independently of IMF management and at arm's length from the Fund's Executive Board.

- The IEO's work program is developed following extensive consultations with government authorities, non-governmental organizations (NGOs), members of the academic community and representatives of the financial sector, as well as the staff, management and Executive Board of the IMF.
- The IEO consults extensively with external stakeholders in deriving the detailed terms of reference for each study and provides further opportunities to comment when the completed evaluation reports are made public.
- Since it was established, the IEO has played a key role in providing independent assessments of Fund surveillance, program design and lending operations. The IEO completed two more evaluations in 2004: (i) experience with Poverty Reduction Strategy Papers and the Poverty Reduction and Growth Facility and (ii) the IMF's role in Argentina, 1991–2001. The Executive Board discussed the two reports in July 2004. These reports have provided management, staff and the Executive Board with ways to strengthen the Fund's crisis prevention and poverty reduction efforts. The IEO's evaluation of IMF technical assistance will be completed and presented to the Executive Board in early 2005.
- The IEO released its second annual report in December 2004, which reviews its recent reports and discusses the status of ongoing evaluations (available on its Web site at www.imf.org/ieo). In 2005 the IEO will undertake evaluations of the Fund's financial sector work, its approach to capital account liberalization, and the role of multilateral surveillance.

IEO Evaluation of Poverty Reduction Strategy Papers (PRSPs) and the Poverty Reduction and Growth Facility (PRGF)

In 1999, the IMF and the World Bank adopted a new approach to supporting low-income countries to strengthen country ownership and enhance the poverty focus of programs. The IEO report found that while the initiative has resulted in improvements, its implementation has fallen short of its potential. The report identified a need to shift incentives more towards improving underlying domestic policy-making processes and institutions and away from the production of documents. In reviewing the report, the Fund's Executive Board agreed that the PRSP approach has yielded benefits, but observed that it was perceived to be externally driven and that participation has sometimes been narrow, especially in the formulation of the macroeconomic framework underlying PRSPs.

The report found that while PRGF-supported programs are increasingly being aligned with PRSPs and the design of PRGF programs has improved, major challenges remain, such as basing Fund-supported programs on a full understanding of micro-macro linkages that are crucial to understanding sources of growth. The Executive Board thought more should be done to integrate the results of poverty and social impact analysis into program design. Work is underway at the Fund to follow up on the report's recommendations.

Strengthening Institutional Capacity

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

Implementation and Assessment of International Codes and Standards

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

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

The IMF has a key coordinating role in assessing observance of codes and standards through its Reports on the Observance of Standards and Codes (ROSCs), as well as through the joint IMF–World Bank Financial Sector Assessment Program (FSAP). Additional developments regarding FSAPs are covered in the following section, "Strengthening Financial Sectors."

The Fund has developed a modular approach to ROSCs whereby comprehensive assessments of members' adherence to a range of internationally recognized standards can be built up over time, standard by standard. ROSCs summarize the extent to which countries observe these standards, focusing primarily on the areas of direct operational concern to the IMF, such as data dissemination and fiscal transparency. ROSC modules for the financial sector are now being derived as a by-product of the FSAP process. Canada was the first country to publicly release as a ROSC the assessment of compliance with international standards conducted during its FSAP. Canada has undertaken ROSCs in the areas of banking and insurance supervision, fiscal policy transparency, monetary and financial policy transparency, payments systems and securities regulation. Additionally, Canada completed a data ROSC in October 2003. Canada's ROSCs can be found on the IMF Web site at www.imf.org/external/np/rosc/rosc.asp#c. Overall, over two-thirds of the IMF's 184 member countries have completed or committed to at least one ROSC module.

After a review of the experience with the FSAP, the IMF and World Bank agreed to extend the FSAP and expand the coverage to up to 24 countries per year. Over 100 of the IMF's 184 members have either participated in the FSAP or have volunteered to do so in the near future. Joint Fund-Bank reviews of the ROSC and the FSAP are scheduled for the spring of 2005. Also, the IEO is scheduled to conduct an evaluation of the FSAP in late 2005.

Strengthening Financial Sectors

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

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

In November 2002 the Fund:

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

In April 2004 the Fund reviewed the 12-month pilot program of anti-money laundering/combatting the financing of terrorism assessments and adopted proposals to make such assessments a permanent part of the IMF's surveillance activities in the context of FSAPs and OFC assessments. The Fund also endorsed the revised FATF recommendations as the new standard for ROSCs and a revised methodology to assess that standard. Under the revised standard, 30 to 40 assessments are expected to be conducted annually, of which the IMF and World Bank will conduct about half and the FATF and other bodies the remainder.

OFC assessments for 40 jurisdictions have been conducted or are underway. Updates will be conducted within four to five years, with interim risk-focused assessments as needed. To help provide technical assistance in the Caribbean region, the Fund, in close collaboration with Canada, established the Caribbean Regional Technical Assistance Centre (CARTAC), which became operational in September 2001. Canada is the largest single donor to CARTAC, which is designed to strengthen the region's technical capability in financial sector regulation and supervision, tax administration and other areas.

Technical Assistance

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

Since the demand for IMF technical assistance normally exceeds the resources available, the IMF takes a number of considerations into account in setting priorities for country requests. Under guidelines approved in 2001, priorities for technical assistance are set in accordance with the IMF's core areas of specialization, its main program areas and its key policy initiatives, which enables a more systematic alignment of resource commitments with institutional priorities. At a March 2004 review the Fund's Executive Board emphasized the essential contribution of IMF technical assistance in helping low-income countries and countries emerging from conflict situations, in particular in laying the capacity, institutional and governance foundations for sustained growth and poverty reduction.

In recent years the IMF has adopted a regional approach to the delivery of technical assistance and training. The IMF opened a fifth regional technical assistance centre, the Middle East Technical Assistance Center (METAC), in Beirut, Lebanon, in October 2004. This centre complements those already in place in Africa (East and West), the Pacific and the Caribbean. Canada is a major financial contributor to both the Caribbean technical assistance (CARTAC) and African technical assistance (AFRITAC) programs.

In Afghanistan, the role of the IMF has been to provide policy advice and technical assistance in establishing a sound foundation for macroeconomic management and stability. The Fund has provided specialized assistance in areas such as customs administration, tax policy and administration, anti-money laundering and fiscal revenue legislation, and the strengthening of statistical capacity.

In Iraq, the Fund has been providing technical expertise to help create a stable macroeconomic environment and rebuild Iraq's economic and financial infrastructure. The Fund worked with Iraqi officials and the Coalition Provisional Authority to prepare an external debt sustainability analysis (DSA). This DSA informed negotiations among the Paris Club of creditors (of which Canada is a member) to provide Iraq with debt forgiveness.

The Fund has also established a donor-sponsored technical assistance (TA) subaccount, and is a member of the International Advisory and Monitoring Board, which oversees the work of the auditors of the Development Fund for Iraq. Canada is a key donor in the IMF's TA subaccount for Iraq, which is focused on rebuilding the institutional macroeconomic capacity in the country.

The IMF's TA program, which is being implemented through seminars outside Iraq because of security concerns, includes training in the areas of public expenditure management, tax policy and administration; central bank organization, accounting procedures and financial reporting, banking supervision, support for the banknote exchange program, and payments system reform; joint training on macroeconomic policies by the IMF Institute and the Arab Monetary Fund; and a series of statistics missions.

Finally, the IMF also plays a coordinating role in the TA efforts of other providers (at their request) in macroeconomic policy areas, in particular with the World Bank, U.S. Department of the Treasury, U.S. Agency for International Development (USAID), UK Department for International Development, and the Bank of England.

Enhancing Crisis Resolution

One of the IMF's primary goals is to reduce the frequency and severity of international financial crises. Despite its crisis prevention efforts, however, financial crises will still occur. The IMF is therefore engaged in the search for possible reforms to improve its capacity to manage and resolve financial crises. Canada welcomes ongoing efforts to advance crisis resolution initiatives, as these efforts will ultimately promote a stronger, more stable and more efficient international financial system.

Implementing the New Access Policy Framework

In 2002 the Fund established clearer rules and procedures for determining exceptional access to its resources (i.e. loans that are larger than what would be normally allowed under IMF lending rules) for countries that face financial crises. Canada supports strict adherence to these criteria to help shape the expectations of members and markets alike, to provide a benchmark for decisions regarding program design and access, to safeguard the integrity of the IMF's resources and to ensure uniform treatment of members. In addition, the procedures for consideration of exceptional access requests should be further strengthened by taking alternative forecasts into account and by giving timely and careful consideration to the financial implications that these exceptional access decisions will have for the Fund.

Exceptional Access Policy Criteria and Procedures

In September 2002 the IMF's Executive Board endorsed the following criteria that, at a minimum, would need to be met to justify exceptional access to IMF resources for member countries facing a capital account crisis:

- the member is experiencing exceptional balance of payments pressures on the capital account resulting in a need for Fund financing that cannot be met within normal limits;
- a rigorous analysis indicates a high probability that the debt will remain sustainable;
- the member has good prospects of regaining access to private capital markets within the time Fund resources would be outstanding, so that IMF financing would provide a bridge; and
- the policy program of the member country provides a reasonably strong prospect of success, based on both the member's adjustment plans and its institutional and political capacity to implement that program.

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

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

Promoting the Adoption of Collective Action Clauses

One of the impediments to successful restructurings of sovereign debt in emerging market financial crises has been the sheer number of creditors involved and the difficulties they face in coordinating and communicating amongst themselves. Collective action clauses are an effective crisis prevention and resolution mechanism, as they facilitate more timely and orderly restructurings of sovereign debt. They do so by providing for a mechanism for creditors as a whole to delegate negotiations to a sub-group of lenders, with voting on the restructuring offer in such a way that the majority decision is binding on all creditors. The IMF is continuing to promote the inclusion of collective action clauses in international sovereign bond contracts in jurisdictions where they are not yet market standard by holding an active dialogue with emerging market issuers and private sector participants. Significant progress has been made in this area, with a number of emerging market borrowers, such as Mexico, Korea and Uruguay, adopting collective action clauses in their recent bond issues. The widespread adoption of collective action clauses in sovereign bond contracts is an important development in promoting the orderly resolution of financial crises, but further work is required on aggregation, creditor coordination and other issues related to sovereign debt restructurings.

Assessing the Possible Role of a Voluntary Code of Conduct

The private sector and a group of emerging market economies have drafted a voluntary code of conduct to guide sovereign debtors and their creditors in the restructuring of sovereign debt. While refinements will likely be made to this draft code over time, it does provide a broad framework for improving the international community's crisis management efforts and should help guide overall relations between sovereign debtors and their private sector creditors. The IMF is also continuing to look for ways to improve its crisis resolution efforts by maintaining an active dialogue with private market participants and debt managers and reviewing the implementation of its lending into arrears policy.

Improving IMF Lending

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

Focusing Conditionality and Fostering Ownership

An important feature of IMF arrangements is the "conditionality" that borrowing countries undertake to correct their underlying balance of payments problems and restore their ability to repay the Fund. Over time conditionality had broadened in scope and become more complex, leading to concerns about its impact and effectiveness. In the fall of 2002 the IMF approved new guidelines on the design and implementation of conditionality in Fund-supported programs.

The new guidelines are aimed at streamlining and focusing conditionality in areas of IMF core competencies in order to enhance the effectiveness of Fund-supported programs and promote national ownership of reforms. They emphasize the need to focus conditionality on policies that are critical to achieving the macroeconomic objectives of programs. The guidelines are based on several interrelated principles, including national ownership of reform programs, parsimony in the application of program-related conditions, effective coordination with other multilateral institutions, and clarity in the specification of program conditions.

Conditions will normally consist of macroeconomic and structural measures that are within the Fund's core areas of responsibility. Where structural reforms that are critical to a program's success lie outside the Fund's core areas, the Fund should work with the World Bank and other international financial institutions, which have a comparative advantage in the design and monitoring of these measures. A key aspect is that the country should take primary responsibility for its own policies and that conditionality, if well designed and established through a mutually acceptable process led by the member, can strengthen and promote ownership. The IMF has observed that implementation of the new guidelines is leading to changes in the scope and design of Fund programs—structural conditionality is more focused on the Fund's core areas of competence and the average number of structural conditions has declined.

In 2005 the Fund will review the experience with the design and effectiveness of Fund-supported programs and the application of the 2002 conditionality guidelines.

Trade and Development

In October the International Monetary and Financial Committee supported the IMF's continued role in advocating trade liberalization, including through a successful conclusion of the Doha Round trade negotiations. Earlier in the year, the Fund introduced the Trade Integration Mechanism (TIM) to help member countries meet balance of payments shortfalls that might result from multilateral trade liberalization. The TIM is a policy designed to increase the predictability of resources that are available under existing facilities. Bangladesh was the first country to benefit from assistance in accordance with the TIM, through augmentation of access to IMF resources under its Poverty Reduction and Growth Facility arrangement.

Signalling Mechanisms

The IMF has had preliminary discussions on whether there are gaps in the Fund's range of instruments and policies. For some IMF members it would be useful if the Fund could provide high-frequency policy monitoring and signalling outside of formal Fund financial arrangements. Canada is of the view that there is a role for a mechanism that demonstrates the strength of a country's economic policies either for domestic purposes or as a signal to creditors and donors, but where there is no need or desire for Fund financing. Canada has advocated the creation of a country-led, surveillance-intensified mechanism, and in the fall of 2004 IMF staff proposed a Policy Monitoring Arrangement that stresses many of the same features. The Fund's Executive Board will continue its discussions of signalling issues and report to the International Monetary and Financial Committee in the spring of 2005.

Safeguarding the IMF's Cooperative Nature

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

Quota Resources

Quota reviews are held every five years to assess the adequacy of IMF resources. The Twelfth Quota Review was concluded in January 2003, but the broad support necessary for a quota increase did not emerge. It was agreed during the Thirteenth Quota Review period (January 2003–January 2008) to monitor closely and assess the adequacy of Fund resources, to consider measures to achieve a distribution of quotas that reflects developments in the world economy, and to consider measures to strengthen the governance of the Fund. The International Monetary and Financial Committee noted in October 2004 that the Fund's liquidity position was adequate to meet the near-term projected needs of members. The Committee encouraged the Fund to continue its consideration of issues of voice, quotas and participation, while noting that progress would require broad consensus among the shareholders. World Bank/IMF measures to enhance developing country voice are covered more extensively in the "Joint Issues" section.

IMF Lending Capacity

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

The one-year forward capacity reflects the IMF's stock of usable resources minus undrawn balances for current lending arrangements, plus projected repayments by IMF borrowers over the coming 12 months. A prudential balance—to safeguard the liquidity of creditors' claims and to take account of a potential erosion of the resource base—is also deducted to arrive at the final forward commitment amount. At the end of 2004 the IMF's one-year forward commitment capacity amounted to SDR 72 billion (US$112 billion).

Management Practices

To keep pace with a changing global economy, the Fund requires a structure that is accountable with a modern management focus to help it deliver effective results supportive of its role. Canada supports efforts by the Fund to strengthen the linkage between strategies and budgets. In this respect, the Fund is reforming its budgetary framework. The Executive Board has endorsed a new approach to enhance the budget's strategic focus and support prioritization. For new initiatives, the Fund will seek the required resources through reprioritization or from efficiency savings. A new medium-term budget framework will set out the overall resource envelope and allocation of resources to specified outputs. Annual budgets will be prepared in terms of outputs, and performance indicators will be developed and incorporated. A review of the Fund's employment structure, compensation and benefits has also been initiated and is expected to be completed by the end of 2005.

How to Access Information at the IMF

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

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

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

Strengthening Support for Low-Income Countries

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

In September 2004 the International Monetary and Financial Committee reiterated the important role of the IMF in supporting the efforts of low-income countries to achieve the macroeconomic stability and high growth needed to make progress towards the Millennium Development Goals. The Fund will continue its work on the financing and modalities of the IMF's engagement with low-income countries, including the financing of the PRGF after 2006 to maintain adequate capacity to meet future needs, instruments to help members face shocks, and ways to improve monitoring and signalling.

The Committee supported continued efforts to strengthen the poverty reduction strategy approach and IMF support for low-income countries under the PRGF. The Committee looked forward to the work on improving the role of the Fund in the poverty reduction strategy process and on the design of policy programs supported by the PRGF. It called for increased incorporation of poverty and social impact analysis into PRGF-supported programs. Joint IMF/World Bank preparation of the debt relief initiative for heavily indebted poor countries and joint work on a new long-term debt sustainability framework for low-income countries are examined in the "Joint Issues" section.

The IMF reacted quickly to the Asian tsunami disaster of December 2004. Drawing on its expertise, the IMF provided advice and technical assistance to assess the macroeconomic impact and budgetary and balance of payments needs related to the disaster. To support recovery, the Fund will also provide financial assistance, primarily through its emergency assistance facility, which can quickly make available sizeable funds without an IMF program. The IMF estimated that its financing could be in the order of US$1 billion for the most affected countries. In January 2005 the Executive Board approved modifications to the emergency assistance facility to allow for funds to be provided under this facility to low-income countries at a subsidized interest rate, with the subsidy element financed through donor resources.

Lending Developments in 2004

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

At the end of 2004 the IMF had lending arrangements worth SDR 58.7 billion in place for 47 member countries (see Annex 1). Drawings under lending commitments decreased significantly in 2004 from the very high levels of 2003 to SDR 5.0 billion. As repayments exceeded disbursements, non-concessional credit outstanding declined to SDR 55.4 billion in 2004. The bulk of the non-concessional lending took place under Stand-By Arrangements, with Argentina and Turkey receiving the largest disbursements. The IMF approved 6 new Stand-By Arrangements in 2004. Of the current 14 Stand-By Arrangements, 7 are being treated as precautionary, with borrowers having indicated that they do not intend to draw on the funds committed to them.

The IMF also provides emergency assistance to help member countries with urgent balance of payments financing needs in the wake of natural disasters or armed conflicts. In 2004 SDR 306 million in emergency assistance loans was provided to countries in post-conflict situations and for natural disaster relief. For post-conflict low-income countries, the interest rate on IMF loans is subsidized down to 0.5 per cent per year, with the interest subsidies financed by grant contributions from bilateral donors. Canada is the third largest contributor of post-conflict subsidies.

Table 1
IMF Resource Flows

	2003	2004
	(in SDR billions)	
Total purchases	21.1	5.0
Of which:		
Stand-By Arrangements	18.7	3.7
Post-Conflict/Natural Disaster	–	0.3
Extended Fund Facility	1.6	0.2
Poverty Reduction and Growth Facility	0.8	0.8
Total repurchases	19.7	14.7
Net purchases	1.4	- 9.7

Lending decreased under the IMF's concessional facility, the Poverty Reduction and Growth Facility (PRGF). About 40 per cent of PRGF-eligible countries had PRGF arrangements in 2004, with seven new arrangements approved during the year.

Managing Canada's Interests at the IMF

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

The management of Canada's interests in the ongoing work of the IMF is the responsibility of the Executive Director, Kevin G. Lynch, Canada's representative on the Executive Board. Elected in October 2004 by constituency Governors, he is one of 24 Executive Directors. In addition to Canada, he represents 11 other countries (Ireland and 10 Caribbean countries), which form a constituency at the Executive Board. Of the 24 members of the current Executive Board, 12 are from developing or transition countries and 12 are from industrialized countries. As the main decision-making body of the Fund, the Board normally meets three times a week.

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

Parliament is informed of the activities and operations of the Bretton Woods Institutions through the tabling of an annual report on their operations and through appearances of the Canadian Executive Directors and departmental officials before parliamentary committees.

Canada's Voting Record

Since most decisions at the Fund are taken on a consensus basis, formal votes by Governors and the Executive Board are rare. Canada attempts to influence the development of Fund policy proposals before they are brought to the Board (often through the circulation of memoranda outlining Canadian positions) or to influence other members in the course of Board discussions. But in 2004 Canada abstained on increases in the remuneration of IMF Executive Directors and the salary of the IMF Managing Director.

Canadian Executive Director's Office at the IMF

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

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

Members of the Executive Director's Office

Executive Director	Kevin G. Lynch (Canada)
Alternate Executive Director	Charles O'Loghlin (Ireland)
Senior Advisor	Paul Jenkins (Canada)
Senior Advisor	Richard Campbell (Caribbean)
Senior Advisor	Mark Kruger (Canada)
Advisor	Chris Faircloth (Canada)
Advisor	Charleen Adam Gust (Canada)
Administrative Assistant	Catherine Byrne (Ireland)
Administrative Assistant	Liz Craib (Canada)
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Canada's Financial Participation

Canada's financial participation in the IMF consists primarily of its quota subscription. Canada's quota is SDR 6,369.2 million, or about 3 per cent of total quotas. Canada's quota subscription is a government asset, which is made available to the Fund partly in Canadian dollars and partly in reserve currencies, such as US dollars or SDRs. These latter non-Canadian dollar amounts continue to be part of Canada's foreign exchange reserves. As an asset, Canada's quota subscription is recorded as a non-budgetary expenditure in the budget of the Canadian government.

Only a very small portion of the Canadian dollar part of Canada's subscription is actually held in cash by the IMF. The balance is held by the Bank of Canada in the form of demand notes, which are available to the Fund in the event it needs to draw upon additional resources. Canada earns interest on its quota subscription when the Canadian dollar is used in Fund lending operations, i.e. is drawn by other member countries. In 2004 Canada received SDR 34.8 million on its net creditor position in the IMF. The net income from Canada's net creditor position with the Fund is paid into the Government of Canada's Exchange Fund Account, adding to the foreign exchange reserves.

Table 2
Canada's Financial Position in the IMF

	December 31, 2004	December 31, 2003
	(in SDR millions)	
Quota	6,369.2	6,369.2
Fund holdings of Canadian dollars	4,219.6*	3,780.3*
Reserve position in the Fund	2,149.6**	2,588.9**

* In accordance with Fund regulations, at least 0.25 per cent of Canada's quota is held by the IMF in a Canadian dollar cash deposit at the Bank of Canada. The Fund's remaining Canadian dollar holdings are in the form of non-interest-bearing demand notes, also kept by the Bank of Canada.
**This is the amount Canada is entitled to draw on demand from the IMF for balance of payments purposes. Canada's reserve position in the Fund is the result of the portion of Canada's quota subscription made available to the Fund over time in reserve currencies, the use of the Canadian dollar in Fund financial transactions with other members, and loans to the IMF under borrowing arrangements such as the General Arrangements to Borrow and New Arrangements to Borrow. As the name suggests, Canada's reserve position in the Fund is a part of Canada's official foreign exchange reserves.

At the end of 2004 Canada's holdings of SDRs amounted to SDR 595.2 million, or 76.4 per cent of Canada's cumulative allocation of SDRs. In 2004 Canada held SDRs in an amount below its allocation, and so paid net interest of SDR 3.5 million.[3]

In 2004, in line with earlier commitments, Canada made further contributions to the IMF's Poverty Reduction and Growth Facility. The facility provides financial support on concessional terms to low-income countries facing protracted balance of payments problems. Canada's total commitment to the Poverty Reduction and Growth Facility is a loan of SDR 700 million and a grant of approximately SDR 190 million. At the end of 2004 loan payments under these arrangements totalled SDR 648.5 million of the SDR 700 million, and subsidy contributions equalled SDR 186.1 million of the SDR 190 million. In 2004 Canada received SDR 9.1 million in interest earned on loans to the Poverty Reduction and Growth Facility.

Further, Canada is a participant in a financing arrangement established to supplement the Fund's regular resources in the event of financial crises, the New Arrangements to Borrow (NAB), which was not activated in 2004. Canada is also a participant in the General Arrangements to Borrow (GAB), an earlier credit arrangement established by the Group of Ten (G-10). Canada's GAB commitment is the equivalent of SDR 892.5 million. This line of credit was not used in 2004.

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

New Arrangements to Borrow (NAB)

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

- Participating countries will make loans to the IMF when supplementary resources are needed to forestall or cope with an impairment of the international monetary system, or deal with an exceptional situation that poses a threat to the stability of the system.
- Twenty-five countries have agreed to lend up to SDR 34 billion (about C$65 billion) to the Fund in case of financial emergencies.
- Canada's share in the arrangement is 4.1 per cent, in the form of a commitment to provide non-budgetary loans to the IMF from its international reserves.
- The NAB does not replace the GAB, which remains in force. However, the NAB would be the first and principal recourse of the IMF if supplementary resources were needed.

Challenges Ahead

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

- The Fund should complete its discussions on its strategic directions to help shape its role in the international economic system over the medium and longer term, and work to ensure that its management practices support its objectives and that it has the necessary tools to fulfil its mandate.
- The Fund needs to clarify its role in middle-income countries, especially with respect to preventing and resolving capital account crises.
- The Fund should complete the review of its role in supporting low-income countries over the medium term, including its instruments and level of financing and how best countries might exit from reliance on Fund concessional resources.

World Bank

Benefits of Membership to Canada

Membership in the World Bank (the Bank) affords Canada an important voice on key development issues in the world's premier multilateral development institution. With 184 members, and loans and credits outstanding to 140 developing and transition member countries at the end of fiscal year (FY) 2004[4] totalling US$225.4 billion, the Bank has a far-reaching impact on global development and poverty reduction. It provides policy advice and financial support crucial to improving borrowing members' longer-term development and poverty reduction prospects. It also assists members by providing concessional assistance and improved access to world financial markets for development purposes.

Canada's capital share of 2.85 per cent gives it a seat on the Bank's Executive Board and on the Development Committee of the Boards of Governors of the Bank and the IMF. Canada has the opportunity at the Executive Board, in dialogue with Bank staff, and at the annual meetings of the Board of Governors (and the Development Committee) to provide direct input into the formulation of Bank policies and operational decisions. Canada and other shareholders help to guide the Bank in improving developing countries' economic, social and environmental performance. Through its engagement with the Bank, Canada's influence in developing countries can be leveraged beyond what can be achieved through bilateral programs. For example, Canada has played a leading role in the Bank's discussion of the implementation of the heavily indebted poor country debt relief initiative, in shaping the institution's response to post-conflict countries, and in its efforts to assist developing countries to combat terrorist financing and money laundering.

Bank membership also provides the Canadian government with access to the institution's research and policy work, which enriches our own understanding of international development. The Canadian International Development Agency (CIDA), for example, is able to draw on Bank analytic and technical expertise in order to gain a more comprehensive understanding of the social and economic policy environments that are conducive to effective aid delivery. CIDA is also able to leverage its own resources with those of the Bank through participation in a growing number of partnerships with, and in global programs led by, the Bank. Finally, Canada's membership allows Canadian companies and individuals substantial procurement opportunities—in fiscal year 2004 they provided goods and services worth US$71 million under Bank-financed contracts associated with investment lending.

[4] The World Bank's fiscal year begins on July 1 and ends June 30 the following calendar year. FY 2004 refers to the period from July 1, 2003 to June 30, 2004.

Overview of Operations in 2004

In FY 2004 the Bank committed loans and credits of US$20.1 billion to 91 developing and transition countries (see Annex 2). The International Bank for Reconstruction and Development (IBRD) committed US$11.0 billion in new loans in FY 2004, or roughly US$200 million less than in FY 2003. The Bank provided concessional lending through the International Development Association (IDA) valued at US$9.0 billion in FY 2004, up substantially from the US$7.3 billion recorded in FY 2003.

Geographic and Sectoral Focus of Lending

Reflecting significant adjustment lending to large South American emerging market borrowers, new IBRD lending commitments in FY 2004 were highest in the Latin America and Caribbean region, which accounted for 45 per cent of all IBRD lending. The Europe and Central Asia region saw the next highest lending share at 27 per cent, followed by the East Asia and Pacific region at 15 per cent, the Middle East and North Africa region at 9 per cent and the South Asian region at 4 per cent. Given its non-concessional lending terms, the IBRD is not a major lender to African countries.

In FY 2004, at 46 per cent, Africa accounted for the largest share of IDA lending although this was below IDA's indicative 50-per-cent target for the region. South Asia accounted for 33 per cent of IDA commitments and the East Asia/Pacific region and Europe/Central Asia region accounted for 10 per cent and 6 per cent respectively.

The Bank's strong commitment to investing in people is reflected in the sectoral breakdown of both IBRD and IDA lending operations. Support for social sector investments, in particular, remains a high priority. The areas of social protection, social development and human development accounted for 31 per cent of total World Bank commitments in FY 2004. Approximately 27 per cent of IBRD commitments and 37 per cent of IDA commitments supported investments in education, health and other social services, and water, sanitation and flood protection sectors.

Non-Lending Operations

In FY 2004 the Bank continued its strong focus on non-lending services in order to enhance the developmental effectiveness of its operations. The Bank provides a wide range of advisory, analytical, training and knowledge-related services in support of building domestic capacities. Through its non-lending activities, the Bank provides valuable policy advice that can bolster the effectiveness of its investment and adjustment lending.

How the World Bank Group Works

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

The IBRD and IDA (together commonly known as the World Bank) provide funding for investment projects and for adjustment—or economic and sector reform—operations. The IBRD lends on non-concessional terms (charging an interest rate that is slightly above its own borrowing costs) to better-off borrowing members, while IDA provides 35- and 40-year interest-free credits to the poorest borrowers. Since July 2002 IDA also provides grants for certain specific purposes. IDA is the largest source of development finance for the world's poorest countries. The IBRD raises its funds primarily on international markets on the strength of its triple-A credit rating. In effect, the IBRD on-lends to borrowing countries at a rate of interest much lower than the rate they could secure on their own borrowings. IDA, on the other hand, receives grant funding from donors, loan repayments and annual allocations from IBRD net income. As of June 2004 outstanding IBRD loans and IDA credits amounted to US$109.6 billion and US$115.7 billion respectively.

The IFC supplements the activities of the IBRD and IDA by undertaking investments on commercial terms in productive private sector enterprises. The IFC provides such services as direct private sector loans, equity investments, resource mobilization and technical assistance. As of June 2004, the total committed loan and equity portfolio was equivalent to US$17.9 billion. MIGA's mandate complements that of the IFC: it promotes private foreign direct investment in developing countries, primarily by providing insurance against non-commercial risk, such as the risk of currency inconvertibility during civil conflict. MIGA's outstanding portfolio as of June 2004 amounted to US$5.2 billion.

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

Strengthening the World Bank's Poverty Reduction Focus

Focusing Operations on the Millennium Development Goals

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

A key task for the Bank in this exercise is to develop a framework for benchmarking performance among both developing countries and donor agencies. The Bank, together with the IMF and the UN system, is strengthening its country and thematic databases. Publicly available data will be posted on the Development Gateway (www.developmentgateway.org). As national capacity in gathering and assessing statistics is critical to efforts for monitoring progress towards the MDGs, in 2004 the Bank developed and began to implement the Statistical Capacity Building Program to help developing countries strengthen statistical systems, institutional capacity and planning.

Millennium Development Goals

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

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

At the request of the Development Committee, the World Bank is working closely with the UN, which has the lead responsibility for tracking progress towards the MDGs, to develop a framework to monitor the implementation of policies that are necessary to promote the attainment of the MDGs and to produce the annual *Global Monitoring Report*. The *Global Monitoring Report* underpins the Development Committee's regular monitoring of progress on the policy agenda and reinforces the accountabilities of the key actors—developing and developed countries, as well as multilateral institutions. The first report was discussed by the Development Committee in April 2004 and was released in July 2004 to disseminate its findings and messages more broadly to policy-makers and the international development community. Given the shared responsibility and mutual accountability for both developing and developed countries for working towards the MDGs, the Bank's monitoring framework assesses economic and governance policies of developing countries as well as the official development assistance, trade and economic policies of developed countries.

The Bank is also working in partnership with developing countries, other aid agencies and civil society more directly to design and implement initiatives to support developing countries in their efforts to reach specific MDGs. These efforts include "fast-track" initiatives that will target Bank and donor resources on countries demonstrating strong commitment to improving social sector programs.

Economic Prospects for Developing Countries

Real gross domestic product (GDP) in developing countries is estimated to have grown by 6.6 per cent in 2004, up from 5.4 per cent in 2003. Growth is expected to decrease in 2005 given expected increases in US real interest rates. Economic prospects, however, vary substantially both across and within regions.

While growth is still low relative to other areas of the developing world, **Latin America** will bolster its 2003 recovery. Real GDP growth throughout the region is estimated at 5.5 per cent in 2004, up from a 2.0-per-cent increase in 2003. Brazil and Argentina remain the key sources of growth in the region.

Latin America continued to be a major focus of World Bank operations in FY 2004. The World Bank committed US$1.3 billion in loans to the Brazilian government to support its social protection and sustainable and equitable growth programs. Argentina received US$1.6 billion in FY 2004 for maternal and child health, economic recovery and national highways management.

East Asia remained the world's fastest-growing region for the year as a whole. Growth in the region was largely boosted by real GDP growth of 9.2 per cent in China. The World Bank provided substantial financing to China in FY 2004, with loans totalling US$1.2 billion on nine different projects. In **South Asia**, prospects remain solid, but India and Pakistan will likely experience a tailing off in growth compared to 2003. India's GDP growth in 2004 is estimated at around 6.2 per cent. As of June 2004, India was the largest single cumulative recipient of World Bank assistance, with lending totalling US$61.5 billion.

In FY 2004 the World Bank committed US$1.4 billion for seven different projects to support poverty reduction efforts in India. In response to the Asian tsunami disaster, the World Bank pledged to make available US$250 million as its initial contribution for emergency reconstruction in the affected countries for the first half of 2005 with more to come following a more comprehensive needs assessment.

In **Africa**, subdued global economic growth, together with recurring civil strife, drought and the HIV/AIDS pandemic, continued to hamper real growth in 2004. Nonetheless, the region is estimated to have enjoyed a 0.5-percentage-point higher level of growth than the 3.8-per-cent growth recorded in 2003. This continues to be lower than the 7-per-cent annual growth estimated to be needed to achieve the MDGs. The World Bank committed more than US$4.1 billion in 29 African countries in FY 2004. The main priorities of the World Bank's work in Africa are to tackle the HIV/AIDS pandemic, spur private sector development, help countries recover from conflict, and help create and share knowledge.

Stronger Focus on Country Ownership

The Bank continues to base its operations on the principles of country ownership. "Homegrown" Poverty Reduction Strategy Papers (PRSPs)[5] are being developed by an increasing number of poor countries as the driver of their national development plans and poverty reduction policies. Increasingly, PRSPs are also driving operations of the Bank and Fund in the poorest countries.

PRSPs are a continuous and evolving process, and many developing country governments have relied on extensive Bank support in this initial stage of design and implementation.

In early 2002 the World Bank and IMF undertook a comprehensive review of the PRSP process. Results show that PRSPs are becoming a valuable tool for enhancing development outcomes. However, it is also clear that more attention needs to be paid to implementation challenges and to addressing bottlenecks in the process. These challenges include enhancing stakeholder participation; improving the link between PRSPs and national budgets and policy-making processes; and improving the coordination and harmonization of donor support.

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

In FY 2004 the Bank undertook a review of its Comprehensive Development Framework (CDF),[6] which concluded that to achieve the benefits of this approach, countries need to put disciplined budget processes in place. Donors need to support capacity building, especially in the area of budgeting, and to align their assistance with PRSPs, and all multilateral and bilateral development partners need to work together to develop better mechanisms for designing and implementing cross-sectoral programs.

Development Policy Lending

One of the consequences of the shift in Bank operations to support country-owned development and poverty reduction strategies has been a high level of adjustment lending in overall Bank financing. In mid-2004, in a major overhaul of its operational policies, the World Bank replaced adjustment lending by the new development policy lending framework and removed the notional level of 25 per cent for the share of adjustment lending in overall Bank lending. The new framework unifies policy that applies to a whole range of adjustment lending instruments, including sectoral adjustment loans, structural adjustment loans and Poverty Reduction Support Credits. In addition, it deals with core issues of design, fiduciary arrangements, financing options, and dissemination and disclosure. Development policy loans are used to support sector-wide reforms and restructuring. In years when the Bank has been active in supporting major borrowers that are experiencing severe financial difficulties, development policy lending is especially high. Development policy operations accounted for 31 per cent of overall World Bank lending in FY 2004, compared to 33 per cent in FY 2003.

Poverty Reduction Support Credits (PRSCs), introduced in May 2001, represent one type of development policy lending operation that provides budgetary financing in support of the implementation of PRSPs. PRSCs ease administrative burdens on borrowers and encourage harmonization of donor practices. PRSCs are used in cases where clients have transparent budgetary and fiduciary processes and strong PRSPs in place. PRSCs have been approved for a number of developing countries.

Development policy lending is also often used to provide support to middle-income and emerging market economies that are experiencing acute financial problems. In FY 2004 the region encompassing Latin America and the Caribbean received 49 per cent of total development policy lending commitments, the largest regional share by a significant margin.

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

Development policy lending has been higher in the case of the IBRD than of IDA. In FY 2004, 40 per cent of IBRD commitments were in the form of development policy loans, compared to 19 per cent for IDA.

Monitoring and Evaluation

The Bank continues to adjust its system of project monitoring and evaluation. Many of the problems stem from both limited borrower capacity and a lack of incentives and guidelines for Bank staff. At Development Committee and other international meetings, Ministers have highlighted the importance of an enhanced focus on results in helping both developing countries and donors design and implement poverty reduction strategies. In response, Bank management has embarked on a process of developing a more comprehensive approach to measuring and monitoring development results. The Bank's approach is focused both on tying its own performance benchmarks more closely with the development priorities of individual PRSPs and on increasing Bank support for statistical and public sector institutional capacity within developing countries. By the end of 2003, the Bank had launched a number of "results-based" Country Assistance Strategy (CAS) pilots. An assessment of the lessons learned from these pilots is underway and the results will inform how to mainstream results into all future CASs going forward. Going forward, the Bank will monitor the poorest countries' progress towards reaching the Millennium Development Goals and its own contribution to this progress.

Assessing Poverty

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

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

HIV/AIDS is not just a public health issue; it is a development crisis. Of the approximately 40 million people around the globe who are living with HIV/AIDS, 95 per cent are in developing countries. The high infection rates in developing countries are killing or incapacitating many of the most productive individuals and threaten economic and social stability. About half of new infections in developing countries are in the 15–24 age bracket. AIDS is now the leading cause of death in Sub-Saharan Africa and among males in the Caribbean. In the hardest-hit countries, HIV/AIDS threatens to reverse the development gains achieved over the past 30 years.

Most of the Bank's HIV/AIDS programming is delivered through IDA, which has mainstreamed HIV/AIDS into its work. In September 2000 the Bank launched a Multi-Country HIV/AIDS Program (MAP) for Africa that has made more than US$1 billion available to African governments to scale up national efforts to combat HIV/AIDS. The overall development objective of the MAP is to dramatically increase access to HIV/AIDS prevention, care and treatment programs. The MAP places a special emphasis on vulnerable groups such as youth and women of childbearing age and provides support to community organizations, NGOs and the private sector for local HIV/AIDS initiatives. The Bank has also commited an additional US$155 million for HIV/AIDS projects in the Caribbean region. The Bank is heavily involved in international efforts to combat the disease. The Bank is one of eight co-sponsors of UNAIDS (which spearheads the UN's response to the crisis). The Bank is also fostering private-public partnerships designed to accelerate the development of an HIV/AIDS vaccine for use in developing countries. The Bank is an active partner in the Global Fund to Fight AIDS, Tuberculosis and Malaria that was launched at the G-8 Summit in Genoa. The Bank, along with UNAIDS and the World Health Organization, holds ex-officio (non-voting) seats on the Board of the Global Fund. The Bank is also the Trustee of the Global Fund, with responsibility for the collection, investment and management of funds, disbursement of funds to countries and programs, and financial reporting. In April 2004, the Bank entered into a partnership with the Global Fund, UNICEF and the Clinton Foundation to make it possible for developing countries to purchase high-quality AIDS medicines at low prices.

The IDA14 Replenishment—Working Together to Achieve the Millennium Development Goals

Negotiations on the volume of financing and operational priorities for the 14th replenishment of IDA began in February 2004. In early 2005, 40 donor governments, with strong participation from borrower representatives, concluded negotiations on the 14th replenishment of the International Development Association (IDA14), subject to final approval by their own governments and Bank Governors. The IDA14 period runs from July 2005 to June 2008. The IDA Deputies' Report, which serves as the IDA14 policy framework, is expected to be approved by Bank Governors by May 2005 and will be made available on the Bank's Web site.[7]

Subject to final approval from their respective governments, donors are expected to substantially increase funding for IDA to ensure its strong participation in the international effort to scale up poverty reduction efforts to reach the Millennium Development Goals. Canada is expected to maintain its 3.75-per-cent donor share during the IDA14 period.

In terms of operational priorities, IDA donors and Bank management agreed that IDA will link its operations more closely to country-owned poverty reduction strategies. Within the framework of support for PRSPs, donors have stressed the need for IDA to invest in people, especially through education, health and basic infrastructure, to promote growth through private sector development, and to monitor measurable results. They reiterated the IDA12 and IDA13 objective of having Africa account for half of IDA allocations.

During the IDA13 period, IDA for the first time is able to provide substantial grants, as opposed to interest-free loans, for certain specific purposes. Recognizing the debt vulnerability of many low-income countries, in IDA14, donors agreed to link the provision of grants to debt distress. More specifically, IDA will establish thresholds for a number of indicators of debt sustainability. These thresholds will be a function of the quality of governance in the country. Well-governed countries would be assumed to be able to manage higher levels of debt and more of their assistance would be in the form of loans. Poorly governed countries are more debt-vulnerable and would receive less assistance; all of it, however, would be in the form of grants and for specific projects and programs that are likely to reduce poverty.

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

[7] A draft of the IDA Deputies' Report was posted for public review and comment in November 2004.

IDA—Focused on the World's Poorest

Established in 1960, IDA is the single most important source of external development support for the world's poorest countries. IDA provides US$6 billion to US$9 billion annually in highly concessional long-term financing to 81 countries, home to 2.5 billion people, of whom 68 per cent live on less than US$2 a day and 28 per cent survive on less than US$1 a day.

IDA provides primarily concessional loans in support of poverty reduction programs. These IDA credits carry no interest and offer a much longer grace period and maturity than other forms of financing. IDA's standard concessional loan (called a "credit") does not require principal repayments until 10 years after it is signed, with a final maturity of 40 years. Therefore, a country effectively repays only about 40 per cent of a regular IDA credit, after applying a discount rate to convert credit repayments over 40 years into today's prices. From July 2002 IDA has been able to provide a significant portion of its financing to the poorest IDA-eligible countries on a grants basis.

Eligibility for IDA concessional lending is based primarily on an assessment of an individual country's per capita income. The operational cut-off for IDA eligibility is US$895 per capita. A number of small island states with per capita incomes above this threshold are also eligible for IDA concessional financing given their limited capacity and high vulnerability to external shocks.

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

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

Canada's Financial Participation in the IBRD and IDA

IBRD

As a shareholder of the IBRD, Canada has a capital share of 2.85 per cent and a voting share of 2.78 per cent. A relatively small proportion of this capital is required to be "paid-in"—about 6 per cent overall, but just 3 per cent in the last capital subscription. The remainder is "callable" in the unlikely event that the IBRD needs it from member countries. Callable capital represents a contingent liability for shareholders. The IBRD leverages paid-in capital to raise financing in international capital markets for its lending program. The IBRD's capital adequacy is regularly reviewed and the institution's capital is replenished through occasional general capital increases. The last general capital increase was in 1988.

Canada's Total IBRD Subscriptions and Contributions Committed

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

In August 2004, Canada agreed to convert the bulk of its national currency paid-in capital into US dollars in order to continue to provide the World Bank with usable capital for poverty reduction purposes. With the World Bank's decision to retire its currency pool loans, the World Bank could no longer use Canada's national currency paid-in capital for lending purposes. Since the amount of US dollars received from the conversion was less than the US dollar value of Canada's original subscription, Canada will issue a special repurchase US dollar note to settle the difference to maintain the value of Canada's shares in the institution.

IDA

As IDA concessional financing does not generate a financial return, its operations are financed entirely from donor contributions, loan fees and repayments of principal on its outstanding loans, as well as allocations from IBRD net income. To meet Canada's $690.4-million obligation under IDA13, the Government issued demand notes in fiscal years 2002–03, 2003–04 and 2004–05, each valued at $230.1 million. The notes for 2002–03 and 2003-04 are fully encashed. The note for 2004–05 will be encashed in April 2005.

Canada's Contribution to IDA13 (July 2002–June 2005)	**Canada's IDA13 Donor share**	**Canada's IDA13 Voting Share**
(in millions of Canadian dollars)	(per cent)	(per cent)
690.4	3.75	2.96

Canada's Priorities at the World Bank

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

Poverty Reduction and Human Development

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

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

In July 2003 the Bank' s Executive Board approved an Infrastructure Action Plan to revitalize the Bank's work in this area. Infrastructure is about providing basic services that people need for everyday life—water, sanitation, modern energy, roads and other aspects of transport, and access to modern information communications technology. The overarching premise of the World Bank's Action Plan is to ensure efficient, affordable and sustainable delivery of infrastructure services by leveraging funds from the entire spectrum of public and private sources, supported by IBRD, IDA, IFC and MIGA products.

In less than two years, significant progress has been made in responding to increased demand for infrastructure, rebuilding the country-level diagnostic work and strengthening the World Bank's instruments and approaches. In FY 2004, the World Bank delivered about 70 knowledge products, including some 10 diagnostic reports called Recent Economic Developments in Infrastructure (REDI). The World Bank also committed close to US$6.5 billion in new infrastructure lending in FY 2004, representing an increase of US$1.1 billion over FY 2003. The IFC's total commitments in infrastructure for FY 2004 were US$983 million, a significant increase over FY 2003 (US$649 million). MIGA's guarantees for infrastructure, however, fell from US$793 million in FY 2003 to US$391 million in FY 2004, but it expects demand for guarantees to increase again in FY 2005.

Poverty Reduction and Sub-Saharan Africa

Canada has long been a leading advocate for poverty reduction and development in Africa, home to some of the poorest countries in the world. In 2004, Canada built on its regular support through CIDA and at the IMF and World Bank with three key initiatives:

- **Commission for Africa:** Building on Canada's leadership on Africa at the 2002 G-8 Kananaskis Summit, Finance Minister Ralph Goodale was invited to be one of 17 Commissioners on the UK's Commission for Africa. The goal of the Commission is to renew the emphasis on Africa, the only continent that has grown poorer over the past four decades. In its report due in March 2005, the Commission will put forward initiatives and recommendations in support of African development, for consideration by the G-8, other donors, private actors, and African countries themselves. Canada has already announced an additional C$42 million to help support polio eradication, a crippling disease with over 86 per cent of cases in Africa. In February 2005, Canada also announced additional debt relief on low-income countries' debt-service obligations to IDA and the African Development Fund as well as possibly the IMF. This Canadian initiative will significantly benefit African countries, as 36 of the 56 potentially eligible countries are in Africa.
- **IDA14 negotiations:** Canada and key donors successfully pressed management to again earmark half of IDA resources to support African development under IDA14, as was done under IDA12 and IDA13. Recognizing the fragile debt sustainability situation of many poor countries on the continent, most of which are benefiting under the Heavily Indebted Poor Countries Debt Initiative, Canada supported the provision of grant financing to countries experiencing debt distress.
- **CIDA initiatives:** A new visionary plan offers hope for Africa to break the cycle of poverty and fully participate in the global economy. The New Partnership for Africa's Development (NEPAD) places Africa's future in African hands. In an effort to boost trade and investment on the continent, Canada has led the international community with a C$500-million contribution to support this initiative. In addition, Budget 2003 committed the Government to double international assistance by 2010, ensuring that 50 per cent of all increases are directed to Africa. Canada and other G-8 members have welcomed NEPAD as a cornerstone on which to build the Africa Action Plan, an international effort to reduce poverty and create sustainable economic growth on the continent.

Canada's Voting Record

World Bank Executive Board decisions are traditionally taken on a consensus basis, without resorting to a formal vote. On occasion, however, individual Executive Directors have been unable to join the Board consensus. In 2004 the Canadian Executive Director opposed an IFC investment in LNM Holdings N.V., which finances steel projects around the world, in view of concerns about global over-capacity in the steel market. He also abstained from voting on an IDA credit to Yemen for a Basic Education Development Project because of concerns about the Government of Yemen's adherence to contract law, and on an IDA credit and grant to Nepal for a Financial Sector Restructuring Project because of project-related concerns, including the excessive voluntary separation package. In July 2004 the Honourable Ralph Goodale, as Governor representing Canada on the World Bank Board of Governors, did not support a proposed 4.1-per-cent increase in remuneration for World Bank Executive Directors as it was above the rate of inflation for the Washington area. In September 2004, the Honourable Ralph Goodale did not support a 9.2-per-cent increase in the remuneration of the World Bank President.

Education

Canada considers education to be a critical factor in development and strongly supports recent efforts by the Bank to increase support to this sector. Commitments to education in FY 2004 amounted to US$1.7 billion. The Bank also provides important non-lending support for education through its analytic and policy advisory work. The Bank has also focused heavily on girls' education. Canada has worked in collaboration with the Bank and other agencies in support of the Education for All (EFA) Initiative. Canada strongly supports the Bank's efforts to develop a Fast Track Initiative (FTI) to assist countries with good education strategies. The FTI was developed by the Bank in close cooperation with a special G-8 Education Task Force, and it was endorsed by Development Committee members in April 2002. To date, Canada has pledged C$135 million from 2003–2008 for FTI proposals from Tanzania, Mozambique and Honduras, over and above current commitments.

Looking ahead, the World Bank's work will be guided by the following three principles:

- increases in education supply must go hand-in-hand with improvements in quality. The World Bank is reviewing its own education strategy update to ensure that supply and quality are given equal importance;
- EFA objectives and financing requirements must be integrated within a country's broader education sector strategy and budget frameworks; and
- the FTI should be scaled up as a demonstrated effective instrument.

On funding, aid resources for basic education in low-income countries have not been increasing fast enough. The Bank estimates that only about 3 per cent of official development assistance (ODA) goes to basic education within low-income countries—of the US$61.8 billion in ODA in 2002, only US$6.5 billion went for education, of which about US$2 billion was for basic education in low-income countries. With all low-income countries now eligible for the FTI, another 25 countries could become eligible for the FTI in 2005 (including 14 Sub-Saharan African countries) and another 13 in 2006, each having developed sound plans for scaled-up investment in basic education consistent with the agreed-upon FTI framework and criteria. The World Bank estimates that additional aid resource needs for basic education in 2005 will be US$1.4 billion, increasing to US$2.2 billion in 2006.

Development Effectiveness

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

The Bank continues to strengthen its efforts to improve development effectiveness through a renewed emphasis on the quality of its project portfolio. More vigilance is now exercised at the project preparation and supervision stages, and this has led to an improvement in the number of projects that are meeting their development objectives. For FY 2003 the Operations Evaluation Department estimated that 83 per cent of Bank projects had satisfactory ratings in terms of meeting their development objectives. This represents a steady increase since 1997, when only 73 per cent of projects were rated satisfactory.

In FY 2004 the World Bank engaged in the nine-month Global Learning Process, which culminated in a high-level working conference in Shanghai in May 2004 jointly hosted by the World Bank and the Government of China. The primary objective of the learning process was to support the achievement of the Millennium Development Goals, especially the poverty reduction goal, through the identification of large-scale solutions that can be widely reproduced. The Global Learning Process, especially the conference, allowed key development actors from developing and developed countries to share their experiences and policy lessons learned from poverty reduction initiatives around the world.

Coordination and harmonization of programs is another critical element of effective development assistance. The World Bank, together with other multilateral development banks and the Organisation for Economic Co-operation and Development/Development Assistance Committee, co-sponsored an international forum on harmonization in Rome in February 2003. The bulk of the international donor community, as well as 30 developing nations, participated in the forum to produce the Rome Declaration on Harmonization. The Declaration sets out an ambitious program of activities to ensure that harmonization efforts are adapted to the country context and that donor assistance is aligned with the recipient's priorities. The Declaration also promotes country-led efforts to streamline donor procedures and practices, and urges the adoption of policies, procedures and practices to ease harmonization. The harmonization focus has now shifted to in-country implementation.

The World Bank is firmly committed to the donor harmonization efforts as a key institutional priority. The Bank sees itself as a participant, facilitator and leader in these efforts. The Bank is continuing a major internal reform and modernization of its operational policy framework for which one key objective is easier harmonization and alignment. The reforms include provisions for pooling resources under Sector-Wide Approaches (2002); aligning CASs with PRSPs (2002); adapting the Bank audit policy to international auditing standards and increasingly relying on country audit processes (2003); updating the Bank's procurement guidelines in line with good practice recommendations prepared by the Multilateral Development Bank Heads of Procurement Working Group (2003); modernizing eligible expenditure requirements to better align its assistance around country objectives (2004); and replacing structural adjustment lending by development policy lending that takes account *inter alia* of country ownership and is coordinated with other development partners. In September 2004 the Bank's Executive Directors endorsed in principle a greater reliance on country systems in projects supported by the Bank, including the possibility of country pilots to test the implications of the approach in environmental and social safeguards and international competitive bidding.

The Bank continues to modernize the operational policies governing its investment operations. Policy modifications slated for adoption in the near future will enable the expeditious scaling-up of successful projects without a protracted internal review process. Shareholder oversight of these actions is assured as the Bank's Board must approve these additional financing efforts. The Bank is in the midst of reforming its budgetary processes and modifying its organizational structure to better align staff with client country needs. These efforts will contribute to greater client focus, heightened transparency of internal redeployments, and greater overall effectiveness.

In March 2005 the World Bank, partner countries, bilateral aid agencies and multilateral institutions will review progress made since the Rome Conference. While planning for this Second High-Level Forum on Harmonization is ongoing, it is expected that the priorities could include (i) reinforcing the need to align strategies and financing with poverty reduction strategy priorities; (ii) committing to work towards use of country systems; (iii) streamlining the delivery of aid through more delegated cooperation and silent partnerships; and (iv) developing indicators.

Gender Issues

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

Private Sector Development

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

In 2004 the Bank, building on the success of its inaugural *Doing Business in 2004* report on regulatory environments in its member countries, published its *Doing Business in 2005* report on removing obstacles to growth. Like the inaugural report, the new report presented indicators in five main topics: starting a business, hiring and firing workers, enforcing contracts, getting credit and closing a business. It also adds another two sets: registering property and protecting investors. The indicators are used to analyze economic and social outcomes such as productivity, investment, informality, corruption, unemployment and poverty, and identify what reforms have worked, where and why.

The Doing Business project itself aims to motivate reforms through country benchmarking. The World Bank reports that this practice has been a powerful motivator for mobilizing society to demand improved public services, enhance political accountability and encourage better economic policy. In addition, this report has the objective of informing the design of reforms. For example, in Ethiopia, the report revealed that a requirement to publish an enterprise's articles of association in local papers added inordinately to costs while serving little public value. Confronted with the evidence, the Ethiopian government scrapped the regulation. The total cost of registration declined in one year from 422 per cent of per capita national income to 78 per cent, while 12 days were pared from total registration time. Incidentally, this report rates Canada very favourably, in all categories, as a place to establish and conduct a business. The results of the World Bank's Doing Business project and its work on private sector development informed the influential *World Development Report 2005*, which focused on investment climate issues.

World Development Report 2005: A Better Investment Climate For Everyone

The World Bank's annual *World Development Report* (WDR), prepared in consultation with stakeholders, provides in-depth analysis of a specific aspect of development. Past reports have considered such topics as the role of the state, transition economies, labour, infrastructure, health, the environment and poverty. The reports are the Bank's best-known contribution to thinking about development.

The 2005 WDR focuses on what governments can do to improve the investment climates of their societies in order to increase growth and reduce poverty.

A key message of the 2005 WDR is that accelerating growth and poverty reduction requires governments to reduce the policy risks, costs and barriers to competition facing firms of all types—from farmers and micro-entrepreneurs to local manufacturing companies and multinationals.

The report draws on surveys of over 30,000 firms in 53 developing countries, the Bank's Doing Business database, country case studies and other new research, and usefully highlights opportunities for governments to improve their investment climates by expanding the opportunities and incentives for firms of all types to invest productively, create jobs and expand.

The 2005 WDR is available online at www.worldbank.org.

In FY 2004 the IBRD and IDA together committed US$4,176.6 million in lending in support of financial and private sector development. An important example of the private sector's role in development is the growing impact of microfinance operations (relatively small loans made to the poor by grassroots organizations). With a small investment, these organizations have been successful in improving the living conditions of the poor—particularly women—in developing countries. Evidence from these operations is compelling; it shows that the poor can be very good entrepreneurs as well as very good credit risks. In 2004 the IFC and the World Bank launched a new initiative to support innovative businesses that create sustainable economic opportunities for very poor and marginalized people. The grassroots business organizations are socially driven ventures, whether for-profit or not-for-profit, that reach out to those at the "base of the pyramid" as partners, suppliers, consumers and/or beneficiaries. These businesses provide income, employment and training for disadvantaged people, bridging the gap to the global marketplace. The initiative has helped Hagar, a Cambodian charity engaging destitute women in soy milk production, and Honey Care Africa, which helps rural farmers in Kenya to augment their income by providing them with the skills and training needed to enter beekeeping, then buys their honey at a guaranteed price and sells it commercially, to expand their operations and help more people.

In November 2004 the United Nations launched the International Year of Microcredit 2005 in an effort to build support for making financial services more accessible to poor and low-income people, raise public awareness about microcredit and microfinance, and promote innovative partnerships among governments, donors, international organizations, NGOs, the private sector, academia and microfinance clients. The Year's overarching goal is to provide greater access to credit, savings, insurance, transfer remittances and other financial services for poor and low-income households so they can move towards more secure livelihoods and prosperous futures.

The Consultative Group to Assist the Poorest (CGAP) is expected to play a critical role in the International Year of Microcredit. CGAP, a consortium that includes the Bank, Canada, 30 other multilateral and bilateral donors, and two private organizations, was established in 1995 to support the development and expansion of sustainable institutions that provide microfinancing services to the poor. In December 2004 CGAP welcomed the IFC as the newest member in order to bring mutual benefits and support an increase in the IFC's microfinance activities. In September 2002 CGAP members renewed the Group's mandate for a third term (from 2003 to 2008). In 2004 it developed and endorsed the key principles of microfinance, which were further endorsed by its membership and the Group of Eight leaders at their June 2004 Summit. CGAP will contribute further to the success of the International Year of Microcredit through the promotion of transparent and inclusive financial sectors and institutions, new research and donor conferences.

Microfinance: The Consultative Group to Assist the Poorest

Microfinance is an important development instrument in the world's poorest countries. In FY 2004 CGAP committed US$13.7 million in new grants and initiatives to expand microfinance operations in the world's poorest countries. Canada strongly supports CGAP efforts to expand microfinance and provides C$500,000 in annual contributions. CGAP moved into its third five-year phase in July 2003.

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

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

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

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

Good Governance and Anti-Corruption

Canada is an advocate of strong Bank support for improved public and corporate sector governance. Over the past decade governance has been mainstreamed into the Bank's adjustment and investment lending, and more recently into its country analytical work.

The Bank's governance strategy, *Reforming Public Institutions and Strengthening Governance*, stresses the need for the Bank to strengthen its tools for evaluating the quality of a country's institutions and for assessing a country's readiness to initiate specific governance reforms. The Bank routinely produces a set of core diagnostic reports that focus on poverty, analyze the effectiveness and efficiency of public expenditures, assess public finance accountability, review procurement practices, and generally provide an analytic framework for prioritizing development activities—the information that is needed as the basis for the lending program in all countries, regardless of their other characteristics. Core diagnostic reports include poverty assessments, country economic memoranda, public expenditure reviews, country procurement assessment reviews and country financial accountability assessments. In FY 2004 the Bank produced 734 "knowledge" products, including 122 core diagnostic reports.

Since 1997 anti-corruption activities have been integral components of the Bank's public sector management portfolio. The Bank has mainstreamed anti-corruption issues into its Country Assistance Strategies. The Bank has amended its procurement guidelines to strengthen the procedures for disqualifying bidders, temporarily or permanently, from future Bank-financed projects if it finds evidence of fraud or corruption. In July 2004 the World Bank adopted the new Strategic Directions and Business Plan, as well as the new External Communications Strategy related to investigations and sanctions with disclosure policy amendments, for the Department of Institutional Integrity. In six years the Bank has debarred over 300 firms and individuals from receiving Bank contracts because of their involvement in corruption or the misuse of Bank funds and obtained 25 criminal convictions in multiple jurisdictions. At the start of 2005, 267 companies or individuals were ineligible from benefiting from contracts under World Bank-financed projects. In addition, the Bank issued 10 letters of reprimand to companies or individuals doing business under Bank-financed contracts.

For many of the world's poorest countries, where governance problems remain endemic, bilateral development cooperation agencies have been reducing aid flows. Moreover, IDA's performance-based allocations also reduce World Bank concessional financing to these countries. Many of these countries, increasingly referred to as low-income countries under stress (LICUS), are becoming marginalized from development assistance programming. Recognizing that engagement with the international community can promote reform, following a review of the Bank's LICUS strategy, Executive Directors approved the establishment of a special LICUS Implementation Trust Fund in January 2004 that will be used to finance small demonstration projects aimed at improving governance and at strengthening institutional capacity. In March 2004 World Bank Governors approved the transfer of US$25 million from the Bank's surplus account to the LICUS Implementation Trust Fund. In cases where LICUS government structures are particularly weak, Trust Fund financing will be delivered through NGOs.

The World Bank's approach to LICUS and post-conflict countries is constantly evolving. These countries often lack adequate governance structures and capacity. The World Bank is increasingly called upon to work closely with the United Nations, other international financial institutions and bilateral donors on needs assessments, to act as facilitator by designing, implementing and administering trust funds, and to help build governance structures in countries such as Haiti and Afghanistan.

In its efforts to promote better governance practices, the World Bank Institute has established close working relations with the Parliamentary Centre of Canada and with international organizations. The IMF and World Bank as a whole continue to support the work of the Toronto Centre to build capacity in the areas of financial sector supervision.

The Toronto Centre

Recognizing the need to strengthen financial sector regulation and supervision internationally, in 1997 the Government of Canada, the World Bank and the Schulich School of Business at York University established the Toronto International Leadership Centre for Financial Sector Supervision. The Toronto Centre provides experience-based training for senior bank and insurance supervisors and securities market regulators, putting them in a stronger position to fulfill their responsibilities and thereby reducing the severity and frequency of financial crises. It focuses on the leadership dimension of the supervisory function, offering pragmatic programs based on the premise that experience is the best teacher. The Toronto Centre has trained close to 1,500 senior public servants from more than 120 countries.

The Toronto Centre works with a number of partners to deliver programs in various parts of the world. Joint programs are delivered with the Financial Stability Institute in Basel and with a number of regional organizations in Asia, Latin America, Southern Africa, and Central and Eastern Europe. In addition, the Centre has expanded its offering of special programs for senior supervisory managers by partnering with individual countries, and with the IMF, the International Organization of Securities Commissions and the Organisation for Economic Co-operation and Development. In short, the Toronto Centre now delivers 3 leadership programs in Toronto and 10 to 12 regional, country, joint and special programs around the world.

In 2004, recognizing the importance of cross-sectoral debate and discussion of common issues amongst senior executives of supervisory agencies, the Centre embarked on an initiative to bring together the most senior executives from banking and insurance supervision and securities markets regulation. The Executive Forum enabled leading experts in the fields of regulation and supervision to help the participating executives to understand some of the key issues they are facing and the capacity of their agencies to deal with them. As a result of their attendance at the program, four supervisory leaders have asked the Toronto Centre to develop and customize programs for each of their countries.

The World Bank provided US$1.25 million in funding to the Toronto Centre from 1998 through 2000. The IMF has contributed US$1.7 million since 2000 and also provides support in kind. The Bank for International Settlements provided US$500,000 over the 2000–2002 period. Canadian funding for the Toronto Centre has been provided by CIDA and amounts to C$6.2 million to date. As well, the Canadian Imperial Bank of Commerce, The Bank of Nova Scotia, the Royal Bank of Canada and TD Canada Trust contributed to the initial round of funding. In addition, support for individual projects has been received from USAID, the Government of Singapore, the Financial Technology Transfer Agency Luxembourg, the Inter-American Development Bank, and the multi-donor Financial Sector Reform and Strengthening Initiative. The Office of the Superintendent of Financial Institutions has provided support from the beginning and it remains a major contributor to the work of the Toronto Centre. The Ontario Securities Commission has become a contributor to the Centre's efforts in the area of capital markets regulation.

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

In 2003 and 2004 the Canadian Executive Director and his colleagues on the Committee on Governance and Executive Directors' Administrative Matters developed measures to enhance the efficiency and effectiveness of Board meetings and other operations. They also recommended important corporate governance initiatives, including financial disclosure for Board officials and an ethics committee to provide guidance to Executive Directors and their senior staff as well as to the President of the World Bank. The Executive Board adopted and implemented these measures in 2004.

Environmentally Sustainable Development

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

While the Bank is mainstreaming environmental considerations into the broad range of its operations, the number of direct environmental investments it supports varies from year to year. In FY 2004 the share of overall Bank lending directed to environmental and natural resource management remained unchanged at 6 per cent.

The Bank has been particularly active in the area of climate change. As an implementing agency of the Montreal Protocol's Multilateral Fund, the Bank has helped to phase out about 140,000 tons of ozone-depleting potential substances at a cost of US$650 million and to complete over 416 projects by the end of FY 2004. In FY 2004, 28 new subprojects were approved with funding amounting to US$66.2 million.

Many developing countries face daunting water resource challenges as the needs for water supply, irrigation and hydroelectricity grow. As a consequence, there is a high and increasing demand for World Bank engagement. Accordingly, the Bank articulated its strategic directions for the water sector in a paper published in February 2003. As a result of this strategy, Bank investment in the Water, Sanitation and Flood Protection sector more than doubled in FY 2003 to 7 per cent of overall lending from 3 per cent in 2002 and increased further to 8 per cent in FY 2004. Together with the United Nations Development Programme and United Nations Environment Programme, the Bank is an implementing agency of the Global Environment Facility (GEF). Through the GEF, the Bank supports projects in four key areas: climate change, biodiversity conservation, phase-out of ozone-depleting substances and protection of international waters. Since the inception of the GEF, the World Bank Group has mobilized nearly US$12 billion in public and private funds to support action in the four key areas. In FY 2004, 41 new GEF projects were approved for US$219 million in GEF financing and additional Bank financing of US$738 million.

More recently the World Bank has expanded its carbon finance business. These activities include the Prototype Carbon Fund, Community Development Carbon Fund and the BioCarbon Fund. The Prototype Carbon Fund, operational as a partnership between 17 companies and six governments (including Canada) since April 2000, pioneered the market for project-based greenhouse gas emission reductions while promoting sustainable development and offering a learning-by-doing opportunity to its stakeholders. The Community Development Carbon Fund, operational since July 2003, is a public/private initiative with a target size of US$100 million that provides carbon finance to small-scale projects in the poorer rural areas of the developing world. The BioCarbon Fund, a public/private initiative administered by the World Bank and operational since May 2004, has capital of US$33.3 million. Through investments in demonstration projects that sequester or conserve carbon in forest and agro-ecosystems, the BioCarbon Fund aims to deliver cost-effective emission reductions, while promoting biodiversity conservation and poverty alleviation. In December 2004 the World Bank and European Investment Bank agreed to cooperate in the development of a Pan-European Carbon Fund.

The World Bank continues to strengthen its approach to ensuring sustainable development. Safeguard policies are a subset of World Bank operational policies that require that potentially adverse environmental and social impacts of Bank investment projects be identified, avoided or minimized where feasible, and mitigated and monitored. Bank management first articulated the concept of safeguard policies in 1997 to stress the importance of this specific set of operational policies for achieving its environmental and social objectives and enhancing the quality of its operations. In 2003 there was a strengthening in the implementation of safeguard polices. In addition, disclosure of safeguard documents has increased now that the application of the Policy on Disclosure of Information is fully mainstreamed. The higher number of projects subject to environmental scrutiny, and the larger number of documents disclosed, reflect the increased mainstreaming of environmental and social concerns in the Bank's lending portfolio.

Over the course of 2004 the World Bank Group discussed at length the report of the independent stakeholder process led by Dr. Emil Salim, as part of the Group's Extractive Industries Review. The process was launched in 2000 in response to concerns expressed by a variety of stakeholders, primarily environmental and human rights organizations. Throughout 2004 Canada underscored the need for meaningful consultations and pressed World Bank management, under both its translation and disclosure policies, to release translated versions of key Bank documents as soon as possible to inform public debate on this critical issue.

The Executive Board's consideration in August 2004 of the Salim report, the World Bank Group Management Response to the Extractive Industries Review and related reports, was the culmination of a wide-ranging process that included multiple in-depth, independent technical reviews, project site visits, and a series of conferences around the globe to solicit the views of stakeholders in government, industry, civil society and local communities.

In its proposal to the Board, the World Bank Group indicated that it would continue investments in oil, gas and mining projects, as these remain an essential part of the development of many poor nations. The World Bank Group also noted that, as countries develop their resources, the Group's capital and expertise can help ensure that such projects meet high environmental, social and governance standards, and that revenue from the projects is used transparently and effectively.

The central message of the reviews was that while extractive industry investments can contribute to sustainable development, the World Bank Group should further enhance its efforts in several areas: more explicitly identifying and tracking poverty reduction associated with its projects, the overall quality of governance in host countries, broader inclusion of local stakeholders, transparency of revenue management and project documents, and the promotion of renewable energy and cleaner fuel alternatives. In the area of renewable energy, the World Bank Group will seek to scale up its activities: management has set an initial target to increase its renewable energy and energy efficiency portfolios by 20 per cent annually over the next five years, which will increase the level of investments in this sector to more than US$400 million per year. This target will be reviewed on a regular basis.

Trade and Development

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

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

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

Doha participants reached agreement in July 2004 on a work program containing frameworks and agreements designed to allow the negotiations to move forward. Much work remains before Trade Ministers meet again in Hong Kong in December 2005. To support the process, the World Bank continues to aid developing countries to increase their capacity to participate in world trade. Such assistance finances government trade reform programs, including income maintenance, worker retraining, investments in ports and roads, and reform of trade-related institutions. As the Doha agreement begins to take shape, the Bank will work with countries to quantify ways they might be affected individually and will help tailor reform programs to their needs if requested.

The Bank will also continue to play a strong advocacy role for developing countries on trade issues. On November 16, 2004, the World Bank launched its annual report—*Global Economic Prospects 2005: Trade, Regionalism and Development 2005* —to shed light on the new bilateral and regional preferential trading arrangements mushrooming all over the globe. Over the last 20 years the number of such agreements, including the North American Free Trade Agreement, has increased sixfold to some 200. The surge in regional trading arrangements prompts many questions that *Global Economic Prospects* 2005 takes up:

- What types of regional and bilateral arrangements are most beneficial—and which types stifle development?
- Do these arrangements inspire deeper integration that multilateral trade agreements cannot?
- Do these arrangements contribute to—or detract from—incentives for countries to engage in the multilateral Doha trade talks?

The report concludes that, broadly speaking, regional trade agreements offer benefits to developing countries provided that these trade agreements do not occur behind a wall of protection or behind an increased role of protection. It also encourages countries negotiating regional trade agreements to make them as open as possible with respect to third parties and to use them to pursue broader trade liberalization rather than to avoid such policies and such an evolution.

In addition, the Bank is working with five other institutions in the context of the Integrated Framework for Trade-Related Technical Assistance (IF).[8] The IF has evolved into an important vehicle for mainstreaming trade issues into least developed country development strategies in a coordinated fashion, with the World Bank playing the role of lead institution. The Bank's intellectual and financial commitment to this project is critical to the success of the IF in both the short and long term. Canada is a strong supporter of the IF and, in addition to providing policy advice, contributed US$1.33 million to the IF Trust

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

Fund. Canada is also one of two donor representatives on the IF Working Group and as such is a full partner with the six agencies in setting future directions for the IF.

Transparency and Accountability

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

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

- documentation outlining key actions supported by a Poverty Reduction Support Credit following loan approval by Executive Directors;
- program documents for other adjustment loans, with the consent of the borrower, following Executive Board approval of the operation;
- a broad range of Operations Evaluation Department reports after they have been released to Executive Directors;
- environmental safeguard assessments for all projects before project appraisal begins;
- concluding remarks of the Executive Board chair on Country Assistance Strategies (CASs), Transitional Support Strategies and CAS Progress Reports that are themselves disclosed;
- concluding remarks on policy and strategy papers on a case-by-case basis; and
- archived documents after 20 years (or 5 years for types of documents now routinely disclosed).

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

More progress was made during the IDA14 replenishment meetings in 2004 and early 2005. Borrower participation and publication of IDA14 documents continued. In September 2004 the World Bank agreed to the publication of individual country ratings under the annual IDA Country Policy and Institutional Assessment (CPIA) exercise to assess economic, social and governance indicators of IDA countries, starting in IDA14. This will provide client countries and other stakeholders with transparent information about CPIA methodology, findings and ratings for all IDA countries, which, in turn, should enhance the quality and robustness of the ratings, as well as public confidence in IDA's performance assessment.

Transparency also requires better consultation with those affected by projects that the Bank supports. Under President James Wolfensohn, the Bank was the first multilateral organization to establish an independent panel to consider outside complaints. Any group that may be affected by a Bank-supported project has the right to request that the Inspection Panel investigate whether the Bank has abided by its policies and procedures. Canada has been one of the major supporters of the work of the Inspection Panel. In FY 2004 the Panel received six new requests for inspection involving Bank projects in the Philippines (Manila Second Sewerage Project), Cameroon (Petroleum Development and Pipeline Project), Mexico (Indigenous and Community Biodiversity Project), Colombia (Cartagena Water Supply, Sewerage and Environmental Management Project), and India (Mumbai Urban Transport Project, two requests). Requests for inspection, Panel recommendations, reports and management recommendations can all be accessed at www.worldbank.org/inspectionpanel.

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

With the phasing out of the World Bank–NGO Committee in late 2000, the World Bank's Civil Society Team has been working with a number of prominent CSO networks to establish new venues for dialogue on policy and process at the global level. These mechanisms include the Joint Facilitation Committee; more structured and earlier consultations around the Bank's policy research; strategic policy workshops on emerging controversial issues; global video-dialogues; and thematic forums. The Bank is also engaged in the Bridge Initiative, which is an effort to promote more informed and constructive public debate among global policy-makers and leaders in the global social justice movements, such as the organizers of the World Social Forum.

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

The World Bank's Business Plan and Administrative Budget

Recognizing that its corporate planning needs to be more closely aligned with efforts to achieve the Millennium Development Goals, the Bank has moved to a three-year budgetary and corporate-planning cycle. In June 2004 Executive Directors approved a net FY 2005 administrative budget of US$1,497.6 million, representing a nominal increase of some 4.1 per cent over the approved budget for FY 2004. Given growing resource pressures and the need for the Bank to prioritize its operations, Executive Directors recently have increased their focus on the Bank's strategic planning and budgetary processes. Executive Directors' offices are now involved in the budget formulation process much earlier than they have been in the past. Going forward, the Bank will work with the Executive Directors to make the budget process more results-based and linked to well-defined key performance indicators within a multi-year framework. Aside from being consistent with its shareholders' desire to make the allocation of aid more results-based, the Bank anticipates that the new process will reduce the cost of preparing the budget itself and increase flexibility.

FY 2004 IBRD Financial Results

As a development institution, the IBRD does not maximize profit. Instead, it aims to earn a return on its assets that is sufficient to ensure its financial strength and sustain its development activities on an ongoing basis. The IBRD usually earns a net return on its assets of about 1 per cent per annum. In FY 2004 the IBRD managed to achieve a net return on assets of 1.2 per cent. The IBRD's main financial risk rests with the credit quality of its disbursed loan portfolio. At the end of FY 2004 the IBRD's equity-to-loans ratio, which is a summary measure of the institution's risk-bearing capacity, was 29.4, compared to 26.6 in FY 2003. These levels are considered sustainable.

Principal and charges totalling US$728 million from four IBRD borrowers[9] were recorded in "non-accrual" status at the end of FY 2004. No IBRD borrower entered into non-accrual status during the fiscal year. During FY 2004 the IBRD held provisions equivalent to about 3.5 per cent of its outstanding loan portfolio against anticipated losses. The Bank follows very conservative investment and hedging policies. In FY 2004 the IBRD raised US$12.5 billion in medium- and long-term debt on international capital markets to fund its operations. This was US$6.8 billion lower than in FY 2003. All proceeds from new funding are initially invested in the IBRD's liquid asset portfolio until they are required for IBRD operations. The IBRD strategically

[9] Iraq, Liberia, Seychelles and Zimbabwe.

repurchases, calls or prepays its debt to reduce the cost of borrowing and to reduce the exposure to refunding requirements in a particular year or to meet other operational requirements. In FY 2004 the IBRD repurchased or called US$4.0 billion of its outstanding borrowings. The IBRD enters into currency and interest rate swaps to convert US dollar and non-US dollar fixed-rate borrowings into US dollar variable rate funding for its loans. The IBRD does not enter into derivatives for speculative purposes.

The process and procedures under which the IBRD manages its financial risk profile continue to evolve as its activities change in response to market, credit, product and other developments. The Executive Board and its Audit Committee periodically review trends in the IBRD's risk profiles and performance as well as any significant developments in its risk management policies and controls.

Allocation of FY 2004 Net Income

IBRD net income supports its development objectives. In July of each year Executive Directors recommend to Governors specific allocations from the previous year's net income. IBRD "allocable" net income, after reserves, was US$995 million in FY 2004. In addition to providing funding for IDA operations and heavily indebted poor country (HIPC) debt reduction, net income allows the IBRD to respond to unforeseen humanitarian crises and to provide grants, from time to time, for other development causes. Governors approved allocations from FY 2004 net income of US$300 million to IDA, US$240 million to the HIPC Trust Fund, US$50 million to the Debt Reduction Facility for IDA-Only Countries and US$405 million to the Bank's Surplus Account.

How to Access Information at the World Bank

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

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

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

701 18th Street N.W.
Washington, DC 20433, USA
Phone: (202) 458-4500
Fax: (202) 522-1500
E-mail address: pic@worldbank.org

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

Managing Canada's Interests at the World Bank

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

The Department of Finance consults closely with CIDA and Foreign Affairs Canada in formulating Canadian policies related to Bank issues. Paul Thibault, the President of CIDA, is Canada's Alternate Governor for the World Bank.

Governors have delegated decision making for a wide variety of day-to-day operational, policy and administrative matters to the Bank's Executive Board. The Executive Board formally approves all loans, credits, projects and World Bank policies; discusses Country Assistance Strategies; and provides strategic advice to Bank management as appropriate. Of 24 Executive Directors on the Board, 12 are from developing and transition countries and 12 are from developed countries. Marcel Massé, who was elected Executive Director in September 2002 and re-elected in October 2004 by constituency Governors, represents Canada and the 12 other members of the constituency.

Canadian Executive Director's Office at the World Bank

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

In addition to the Canadian Executive Director's office, the Canadian Embassy in Washington has established an Office for Liaison with International Financial Institutions that can advise Canadians on how to participate in Bank-financed projects. The office can be reached at (202) 682-7788.

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

Members of the Executive Director's Office

Executive Director	Marcel Massé (Canada)
Alternate Executive Director	Gobind Ganga (Caribbean)
Senior Advisor	Grant Cameron (Canada)
Senior Advisor	François Pagé (Canada)
Senior Advisor	Donal Cahalane (Ireland)
Senior Advisor	Stephen Free (Canada)
Advisor	Sharmila Prakash Khare (Canada)
Advisor	Lisaveta Valantina Ramotar (Caribbean)
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Canadian Procurement at the World Bank

Canadian firms benefit from Canada's World Bank membership by accessing procurement opportunities under World Bank-financed loans. Canadian expertise in the power, environmental, engineering, public service reform, health, education, financial and transportation sectors has led to procurement opportunities for Canadian firms for developing country projects around the globe.

In FY 2004 Canadian companies provided US$71 million in goods and services under Bank-funded projects associated with investment lending with, as in past years, consulting services accounting for approximately half this amount. For example, Cowater International Inc. provided advisory services and capacity building for the implementation of reforms under a US$5.99-million Municipal Financial Management Technical Assistance project with the Government of South Africa. Développement International Desjardins and the Montréal-based International Civil Aviation Organization also gained World Bank financing to provide technical assistance to developing countries. Canadian companies such as Tecsult International, CIMA International, SNC Lavalin, and Geomar International Inc. were successful in gaining financing from the World Bank in 2004 for various consulting services.

The Executive Director's office collaborated with several institutions and government agencies to promote business opportunities with the Bank. Through their participation in Canada in several events and conferences such as International Development Days, the annual meeting of the Saskatchewan Trade and Export Partnership and special events organized by the World Trade Centre in Montréal, Toronto and Halifax, World Bank representatives provided information to the Canadian private sector on how to do business with the Bank.

In 2004 the Canadian Executive Director's office undertook several initiatives to strengthen commercial and other ties between Canada and the World Bank Group. The relationship between the World Bank and Canada was highlighted by the participation of World Bank President James Wolfensohn at the 10th Conference of Montreal in June 2004.

Over the course of 2004 the World Bank and the Canadian Executive Director's office helped launch the Private Sector Liaison Officer (PSLO) Network for Canada to promote increased dialogue between the Canadian private sector (companies, non-governmental organizations, and academic institutions) and the World Bank Group. This network was established following months of work and strong collaboration between the World Bank, the Canadian Executive Director and the Office of Liaison with international financial institutions at the Canadian Embassy in Washington. The World Bank offers two annual training programs to the PSLOs and provides them with information and documentation on the Bank's projects and programs to share with the private sector. The World Bank has an active PSLO Network in Europe and plans to expand the Network to include several countries in Asia and Latin America. The Canadian organizations participating in the PSLO Network are Business New Brunswick, New Brunswick; the World Trade Centre, Montréal, Quebec; the Canadian Manufacturers and Exporters, Ontario; Manitoba Trade and Investment, Manitoba; Saskatchewan Trade and Export Partnership, Saskatchewan; and Alberta Economic Development, Alberta. The regional office of International Trade Canada in Vancouver is acting as the PSLO for British Columbia. In 2005 the Bank intends to finalize the PSLO Network in British Columbia and to work with additional partners in Nova Scotia.

Trust Fund Activities

Consultant trust funds (which, in Canada's case, are financed by CIDA and administered by the Bank) are a source of funds for identifying and preparing Bank projects, programs or analytical work focused on poverty reduction. These trust funds support the participation of Canadian consultants, individuals or firms in activities and programs funded by the Bank. In FY 2002 the Board of Directors approved a package of reforms for consultant trust funds that simplified and standardized existing eligibility criteria. These reforms have resulted in standardized consultant trust fund framework agreements for all donors. The changes strengthened the alignment of the consultant trust funds with the Bank's overall strategic development priorities and resource-planning processes.

The Bank has also proposed a further set of reforms to the Consultant Trust Fund program that would effectively see the closure of all tied trust funds by the end of FY 2007. Canada is supportive of these reforms and is now in the process of winding down our own consultant trust fund. With current resource levels, it is expected that the Canadian Consultant Trust Fund will close by the end of FY 2006. Going forward, Canadian consultants will be able to access a much wider range of opportunities by becoming eligible for contracts funded by any consultant trust fund. Access to procurement opportunities is also expected to become much easier with the July 2004 launch of the "eProcurement system" for the selection of consultants and the further development of the Canada-wide PSLO Network, which aims to be a link between the Bank and the Canadian private sector.

CIDA's framework agreement with the Bank, signed in June 1995, governs all of its other single-donor trust fund arrangements with the Bank, the World Bank Institute and the Global Environment Facility. These primarily comprise project co-financing arrangements but also include prominent specific trust funds like the Canada Persistent Organic Pollutants Fund (C$20 million) and the C$5-million trust fund with the World Bank Institute. This trust fund, which currently extends to FY 2005, enables the World Bank Institute to engage Canadian expertise in the preparation and delivery of its training programs in countries eligible for Canadian official development assistance. Allocations are made annually to five or six World Bank Institute programs, based on their compatibility with Canadian development assistance priorities.

In addition, CIDA participates in a number of influential multi-donor trust funds targeted at specific development issues. These include trust funds for the Prototype Carbon Fund (US$10 million), the Public-Private Infrastructure Advisory Facility (C$350,000), the Cities Alliance (C$350,000), the Asia Sustainable and Alternative Energy Fund (C$4.25 million total), the World Bank–WHO Health Systems (US$750,000 total) and the Global Gas Flaring Reduction Partnership (C$400,000 annual contribution).

International Finance Corporation

The International Finance Corporation (IFC), created in 1956, supplements the activities of the IBRD and IDA by providing financing on commercial terms for productive private sector enterprises that lack access to private capital markets. The institution is the largest multilateral source of loan and equity financing for the private sector in the developing world. The institution provides both loans and equity investments; loans represent 74 per cent of the IFC's disbursed portfolio. Through its co-financing arrangements, it leverages substantial private financing for development purposes. By investing alongside the IFC (as Canadian financial institutions have done since the mid-1990s through their participation in the IFC loan syndication program), investors gain valuable access to potential new customers, attain a high-yielding asset and, given the IFC's good relations with developing country governments, benefit from a degree of implicit political risk coverage.

In FY 2004 the IFC signed investment commitments totalling US$5.63 billion for 217 projects in the developing world, compared to US$5.03 billion in FY 2003. Of this amount, US$0.88 billion was mobilized through loan syndications, compared to US$1.18 billion in FY 2003. Of the US$4.75 billion of the IFC's own financing, US$3.40 billion was provided in the form of loans, US$171 million in the form of structured finance products (including guarantees), US$1.13 billion as equity investments and quasi-equity investments, and US$60 million for risk management products. The IFC earned net income of US$993 million in FY 2004, compared to US$487 million in FY 2003.

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

Canada supports a number of technical assistance programs through the IFC's Technical Assistance Programme, which was instituted in 1988 and manages technical assistance programs funded by bilateral and multilateral donors. In FY 2004, 133 technical assistance projects were approved with a total value of $23 million. The Technical Assistance Programme now has 44 active funding agreements with 20 donor countries or regions, in addition to the IFC as a donor. Through FY 2004 donors have provided cumulative contributions of US$188 million and approved more than 1,380 technical assistance projects under this program.

Donors also provided other funds in support of small- and medium-enterprise project development facilities, the Sustainable Business Assistance Program focusing on social and environmental issues and investment climate initiatives. In addition to its consultant trust funds with the IFC, CIDA has also provided funding for the Africa Project Development Facility, Pacific Enterprise Development Facility, Program for Eastern Indonesia SME Assistance, SouthAsia Enterprise Development Facility, South East Europe Enterprise Facility, Mekong Private Sector Development Facility, Private Enterprise Partnership and Foreign Investment Advisory Service.

Canada maintains a 3.44-per-cent share of IFC capital. It has paid in US$81.3 million to the IFC's capital stock. Given the risks associated with its financial operations, all of the IFC's authorized capital is paid-in.

Canada's Financial Participation in the IFC

	Subscriptions	Voting Power
Total	(% of total)	(% of total)
US$81.3 million	3.44	3.39

Multilateral Investment Guarantee Agency

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

In FY 2004 MIGA approved 55 guarantees totalling US$1.1 billion for 35 projects, of which 20 were in IDA-eligible countries. IDA-eligible countries also benefited in FY 2004 from 35 MIGA technical assistance efforts. During FY 2004 MIGA also increased its support for investors from developing countries: it supported eight investments made by developing country enterprises in other developing countries.

Canada's Financial Participation in MIGA

	Subscriptions	Voting Power
Total	(% of total)	(% of total)
US$56.535 million	3.11	2.74
Of which paid-in US$10.732 million		
Of which callable US$45.803 million		

Future Challenges

That millions of the world's poorest are unable to share in the benefits of globalization is both an economic and a moral issue, and has made development a prominent theme of G-7/G-8 meetings and of policy discussions in other multilateral fora (e.g. in the UN system, regional summits and World Trade Organization negotiations). Effective use of scarce resources is central to international discussions of development issues. At the International Conference on Financing for Development in March 2002, developed and developing country leaders agreed that more must be done to channel resources in support of development and that, for their part, developing countries have a responsibility to ensure that these resources are used effectively. Donors, conscious of the uneven results of decades of official development assistance, want to ensure that scarce assistance resources produce measurable results. This requires stronger efforts by developing countries to create sound policy and institutional environments. The Bank, as the world's largest provider of development financing, plays a crucial role in providing advisory and financial assistance to countries to help strengthen their economic, social and governance policies. Going forward this will remain one of the Bank's more pressing challenges.

President James Wolfensohn has indicated his intention to leave the World Bank Group after his term expires on May 31, 2005. A new President will be selected. With the change in leadership and shareholder interest in further enhancing the effectiveness of the World Bank Group, this is a window of opportunity for Canada to press for reforms to maximize the Bank's impact on poverty reduction and sustainable growth in developing member countries.

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

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

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

The Bank will continue to provide support to developing countries facing a broad range of institutional, economic and social challenges. The Bank's strategy for contributing to capacity building and poverty reduction in low-income countries under stress will continue to evolve based on its operational experience. However, the Bank's future challenges are not limited to the world's poorest countries. A majority of the world's poor live in middle-income countries, and over the coming year the Bank will be looking at how best to address the problems facing this particular segment of the world's poorest.

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

Joint Issues

Overview

The IMF and the World Bank are important institutions for Canada, each playing a unique role in the international economic and financial system. Nevertheless, there are key areas where the mandates of the two Bretton Woods Institutions overlap, or where there is a requirement for close cooperation and coordination of activities. The heads of both institutions have put considerable effort into increasing cooperation. At the International Conference on Financing for Development, held in Monterrey, Mexico, in March 2002, leaders from both the developing and developed worlds asked the Bank and Fund to explore innovative ways to enhance the voice and participation of developing countries in their decision-making processes. Three particular examples—Bank/Fund measures to enhance developing country voice, the joint preparation of the debt relief initiative for heavily indebted poor countries, and joint work on a new long-term debt sustainability framework for low-income countries—are examined below.

Enhancing the Voice and Participation of Developing Countries in the Bretton Woods Institutions

Responding to the call at the March 2002 International Conference on Financing for Development that the Bank and the Fund find “innovative and pragmatic” ways to enhance the participation of developing and transition economies in their decision making, Ministers discussed the voice issue during the 2003 and 2004 meetings of the Development Committee of the Boards of Governors of the World Bank and the IMF.

Much progress has been made in addressing capacity constraints in the offices of developing country Executive Directors at both institutions. Measures have been taken to deal with the problem of weak capacity within developing country capitals to assess important World Bank and IMF policy issues from a developing country perspective and to make Bank and Fund operations more responsive to borrowers’ needs.

In April 2003 Executive Directors approved an increase in the professional staff complement of the two Executive Directors representing African countries at each institution. The two institutions are also making greater efforts to involve staff from developing country Executive Directors’ offices in their internal training programs. The World Bank has expanded its secure access to Executive Board documents to developing country capitals. Following the September 2003 Development Committee meeting, the World Bank established a secondment program to expose mid-level developing country officials directly to World Bank operations, with the object of improving their understanding of the Bank’s operational and decision-making processes. In early 2005 the World Bank is expected to host 18 officials from developing countries, including 10 from Africa. Separately from the World Bank and IMF, some bilateral donors are working to establish an independent policy advisory unit that developing countries could draw on to seek policy advice on key World Bank and IMF policy issues.

More broadly, the World Bank is moving to enhance developing country influence and participation by increasing its efforts to involve developing countries in the design and formulation of its Country Assistance Strategies and non-lending programs. The Bank is also making greater efforts to focus its Country Assistance Strategies on priorities identified by developing countries themselves in their Poverty Reduction Strategy Papers. Within IDA, borrower representatives fully participated in the five meetings convened between February 2004 and February 2005 to discuss operational priorities for the 14th IDA replenishment period (2005–2008).

Looking ahead, the Development Committee is expected to revisit this issue at its next meeting in April 2005. In October 2004 the Development Committee urged the Bank and Fund Boards to cooperate closely together in exploring all relevant options, to strive to achieve consensus amongst all members, and to prepare a report for its April 2005 meeting. The report is expected to deal with the difficult remaining issues of Board composition and voting structure. At present there is no consensus among members to alter either the voting structure or the composition of the Executive Boards at the World Bank and the IMF.

Multilateral Debt Relief

In September 1996 the IMF and World Bank launched the Heavily Indebted Poor Countries Initiative (HIPC Initiative) to reduce the unsustainable debt burdens of the world's poorest countries. After a review of the HIPC Initiative in 1999, a number of modifications were approved to provide faster, deeper and broader debt relief and to strengthen the links between debt relief, poverty reduction and social policies. Currently 42 countries are being considered for assistance under the HIPC Initiative. Guyana, a member of Canada's constituency at the World Bank, reached its HIPC completion point and completed the process in December 2003.

Good progress has been made. As of the end of December 2004, 27 countries were benefiting from debt relief under the HIPC Initiative. Fifteen of them (Benin, Bolivia, Burkina Faso, Ethiopia, Ghana, Guyana, Madagascar, Mali, Mauritania, Mozambique, Nicaragua, Niger, Senegal, Tanzania and Uganda) have completed the HIPC process and received irrevocable debt relief. These countries will receive over US$53 billion in debt relief under the HIPC Initiative and additional measures, and they will benefit from an average two-thirds reduction in their debt burdens. Importantly, for these countries, social spending has dramatically increased while average debt service has fallen significantly, and debt ratios have declined to levels similar to many other poor, but initially less indebted, countries.

In 2004 both the Bank and the Fund agreed to extend the sunset clause of the HIPC Initiative for another two years, to end-2006, in order to give countries that have yet to enter the HIPC process more time to take the necessary steps, including reform programs supported by the Bank and the Fund.

Canada's Actions in Support of the HIPC Initiative

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

- announcing in February 2005 Canada's commitment to cover the debt-service obligations of eligible reforming low-income countries to IDA and the African Development Fund. Canada urged other donors to do the same. Additionally, Canada called on donors to agree on the need to provide further IMF debt relief and to identify the best way to finance this cost. The benefits would be available until 2015 to all countries that have completed the HIPC process and to other low-income (IDA-only) countries that have the ability to use these savings for development. This provides poor countries with immediate fiscal space to implement their poverty reduction strategies;
- leading efforts in the G-7 for the enhanced HIPC debt initiative (announced in September 1999), as well as continually working to improve the effectiveness of the initiative, as evidenced by Canada's leadership role on the G-8 Leaders Statement on Debt Relief, issued at the Kananaskis Summit in June 2002;
- committing C$75 million in Budget 2003 to further debt relief efforts, bringing our total contribution to the HIPC debt relief trust funds at the IMF (C$65 million) and World Bank (C$250 million) to C$315 million. This will help to ensure timely debt relief for deserving countries;
- calling on all bilateral creditors to follow Canada's lead and to put in place a moratorium on debt payments from reforming HIPCs;
- supporting the provision of additional debt relief ("topping-up" assistance) at the completion point of the HIPC process for those countries negatively affected by, for example, falling commodity prices. Canada has also called for a more generous method of calculating the amount of debt relief that should be offered to countries in need of topping-up assistance;
- calling for flexibility in linking HIPC debt relief to the Poverty Reduction Strategy Paper process to avoid delaying debt relief to deserving countries; and
- strongly supporting continuing World Bank and IMF efforts to develop a long-term debt sustainability framework for low-income countries and the debt distress-based grant allocation framework to be used under IDA14.

Bilaterally, Canada is helping the poorest countries by:

- no longer collecting debt payments from 11 reforming HIPCs on loans outstanding as of March 31, 1999 since January 1, 2001, and from another 2 countries—Democratic Republic of Congo and Rwanda—since Budget 2004, under the Canadian Debt Initiative (CDI);
- forgiving, also under the CDI, all remaining debts owed to Canada for eligible countries that have completed the HIPC process—Benin, Bolivia, Ethiopia, Ghana, Guyana, Madagascar, Senegal and Tanzania;

Canada's Actions in Support of the HIPC Initiative (cont'd)

- forgiving C$1.3 billion in official development assistance (ODA) debt to 46 developing countries since 1978, including all of its ODA debt to 22 HIPCs, at a cost of C$900 million; of the HIPCs, only Myanmar (formerly Burma) currently has ODA debt to Canada; and
- providing development assistance since 1986 on a grant basis so as to avoid worsening the debt problems in the poorest countries.

Long-Term Debt Sustainability in Low-Income Countries

Debt sustainability is an essential condition for economic stability, which, in turn, is a foundation for economic growth and development. Many low-income countries have struggled to maintain their external debt at sustainable levels while also trying to meet development objectives such as the Millennium Development Goals (MDGs). The economic weakness of many poor countries leaves them vulnerable to exogenous shocks, such as a fall in primary commodity prices, which could alter their debt sustainability prognosis. Excess lending, even on concessional terms, could lead to unsustainable debt burdens going forward.

In the spring of 2004, the World Bank and International Monetary Fund introduced a new Debt Sustainability Framework in Low-Income Countries, which seeks to make that challenge less difficult by providing guidance on new lending to low-income countries whose main source of financing is official loans. The key features of the new framework include the following:

- The debt sustainability framework is a "forward-looking" approach that aims to guide borrowing and lending decisions for low-income countries on terms that allow borrowing countries to devote resources towards achieving the MDGs, while also staying within their means to repay loans. By taking into account each country's specific circumstances, the framework tries to help borrowing countries balance their need for funds with their current and prospective ability to repay their debts. Linking a country's borrowing potential to its current and prospective ability to service debt should help countries avoid accumulating excessive debts.
- This approach puts responsibilities on both borrowers and creditors. The low-income countries that seek new loans are responsible for maintaining debt sustainability. They must develop and strengthen policies and institutions that enhance their capacity to manage debt and reduce their vulnerability to exogenous shocks ranging from international trading conditions to natural disasters. Among other things, they will need to keep new borrowing in step with their capacity to repay loans, diversify exports and build up foreign exchange reserves.

- Creditors and donors, for their part, need to comprehensively review long-term debt projections, which incorporate forward-looking analysis and account for possible shocks. Potential creditors and donors should also consider giving additional resources in the form of grants and/or highly concessional loans for low-income countries with high levels of debt distress to reduce the possibility that these countries later experience debt distress. Creditors and donors also need to explore options that can help limit the potential impacts of adverse exogenous shocks or help low-income countries cope with them.

In response to this work and the lessons learned under the HIPC Initiative, Canada and its partners supported a new grant program at the Asian Development Fund. In late 2004 Canada and other donors agreed to a new grant allocation framework linked solely to debt distress indicators for both IDA and the African Development Fund going forward. Work to further enhance the debt sustainability framework for low-income countries will continue at both the World Bank and the IMF in 2005. In October 2004 the Development Committee also asked the Bank and the Fund to accelerate their work on means to help mitigate the impact of exogenous shocks on low-income countries and to report to their Boards at an early date.

Annex 1

Active IMF Lending Arrangements—As of December 31, 2004

Member	Date of arrangement	Expiration date	Amount approved	Undrawn balance
			(in SDR millions)	
Stand-By Arrangements—Total			**54,546**	**19,137**
Argentina	September 20, 2003	September 19, 2006	8,981	4,810
Bolivia	April 2, 2003	March 31, 2005	129	27
Brazil	September 6, 2002	March 31, 2005	27,375	10,175
Bulgaria	August 27, 2004	September 5, 2006	100	100
Colombia	January 15, 2003	April 14, 2005	1,548	1,548
Croatia, Republic of	August 4, 2004	April 3, 2006	97	97
Dominican Republic	August 29, 2003	August 28, 2005	438	306
Gabon	May 28, 2004	June 30, 2005	69	28
Paraguay	December 15, 2003	March 31, 2005	50	50
Peru	June 9, 2004	August 16, 2006	287	287
Romania	July 7, 2004	July 6, 2006	250	250
Turkey	February 4, 2002	February 3, 2005	12,821	907
Ukraine	March 29, 2004	March 28, 2005	412	412
Uruguay	April 1, 2002	March 31, 2005	1,989	140
Extended Fund Facility Arrangements—Total			**794**	**311**
Serbia and Montenegro	May 14, 2002	May 13, 2005	650	188
Sri Lanka	April 18, 2003	April 17, 2006	144	124

Annex 1

Active IMF Lending Arrangements—As of December 31, 2004 *(cont'd)*

Member	Date of arrangement	Expiration date	Amount approved	Undrawn balance
			(in SDR millions)	
Poverty Reduction and Growth Facility Arrangements—Total			**3,328**	**1,693**
Albania	June 21, 2002	June 20, 2005	28	8
Azerbaijan	July 6, 2001	July 4, 2005	68	26
Bangladesh	June 20, 2003	June 19, 2006	400	252
Burkina Faso	June 11, 2003	June 10, 2006	24	17
Burundi	January 23, 2004	January 22, 2007	69	43
Cape Verde	April 10, 2002	April 9, 2005	9	2
Congo, Republic of	December 6, 2004	December 5, 2007	55	47
Congo, Democratic Republic of	June 12, 2002	June 11, 2005	580	53
Côte d'Ivoire	March 29, 2002	March 28, 2005	293	234
Dominica	December 29, 2003	December 28, 2006	8	5
Gambia, The	July 18, 2002	July 17, 2005	20	17
Georgia	June 4, 2004	June 3, 2007	98	84
Ghana	May 9, 2003	May 8, 2006	185	105
Guyana	September 20, 2002	March 19, 2006	55	37
Honduras	February 27, 2004	February 26, 2007	71	51
Kenya	November 21, 2003	November 20, 2006	225	200
Kyrgyz Republic	December 6, 2001	April 5, 2005	73	10
Lao People's Democratic Republic	April 25, 2001	April 24, 2005	32	14
Madagascar	March 1, 2001	March 1, 2005	92	11
Mali	June 23, 2004	June 22, 2007	9	8
Mongolia	September 28, 2001	July 31, 2005	28	16
Mozambique	July 6, 2004	July 5, 2007	11	10
Nepal	November 19, 2003	November 18, 2006	50	36
Nicaragua	December 13, 2002	December 12, 2005	98	42
Rwanda	August 12, 2002	August 11, 2005	4	2
Senegal	April 28, 2003	April 27, 2006	24	17
Sierra Leone	September 26, 2001	September 25, 2005	131	14
Sri Lanka	April 18, 2003	April 17, 2006	269	231
Tajikistan	December 11, 2002	December 10, 2005	65	29
Tanzania	August 16, 2003	August 15, 2006	20	11
Uganda	September 13, 2002	September 12, 2005	14	6
Zambia	June 16, 2004	June 15, 2007	220	55
Total			**58,668**	**21,142**

Annex 2

IBRD Loans and IDA Credits—
Fiscal Year 2004 (July 1, 2003–June 30, 2004)

	IBRD	IDA	Total	
	Amount	Amount	No.	Amount
	(in millions of US dollars)			
By area				
Africa	0.0	4,115.9	68	4,115.9
East Asia and Pacific	1,665.5	907.2	30	2,572.7
Europe and Central Asia	3,012.9	546.2	52	3,559.1
Latin America and the Caribbean	4,981.6	338.2	50	5,319.8
Middle East and North Africa	946.0	145.0	11	1,091.0
South Asia	439.5	2,982.1	34	3,421.6
Total	**11,045.4**	**9,034.6**	**245**	**20,080.1**
By theme				
Economic management				428.6
Public sector governance				3,374.0
Rule of law				503.4
Financial and private sector development				4,176.6
Trade and integration				1,212.7
Social protection and risk management				1,577.0
Social development, gender, inclusion				1,557.8
Human development				3,079.5
Urban development				1,358.1
Rural development				1,507.8
Environment and natural resources management				1,304.6
Total				**20,080.1**

Annex 3

IBRD Loans and IDA Credits to Developing Countries

	IBRD		IDA		Total	
	No.	Amount	No.	Amount	No.	Amount
			(in millions of US dollars)			
By fiscal year (July–June)						
Cumulative to 1968	549	11,418.1	116	1,831.8	665	13,249.9
Total 1969–73	374	8,917.8	273	3,931.6	647	12,849.4
Total 1974–78	666	24,372.3	376	7,947.4	1,042	32,319.7
Total 1979–83	711	44,908.0	518	16,368.1	1,229	61,276.1
1983–84	129	11,947.2	106	3,575.0	235	15,522.2
1984–85	131	11,356.3	105	3,028.1	236	14,384.4
1985–86	131	13,178.8	97	3,139.9	228	16,318.7
1986–87	127	14,188.2	108	3,485.8	235	17,674.0
1987–88	118	14,762.0	99	4,458.7	217	19,220.7
1988–89	119	16,433.2	106	4,933.6	225	21,366.8
1989–90	121	15,179.7	101	5,522.0	222	20,701.7
1990–91	126	16,392.2	103	6,293.3	229	22,685.5
1991–92	112	15,156.0	110	6,549.7	222	21,705.7
1992–93	122	16,944.5	123	6,751.4	245	23,695.9
1993–94	124	14,243.9	104	6,592.1	228	20,836.0
1994–95	134	16,852.6	108	5,669.2	242	22,521.8
1995–96	129	14,656.0	127	6,864.0	256	21,520.0
1996–97	141	14,525.0	100	4,622.0	241	19,147.0
1997–98	151	21,086.2	135	7,507.8	286	28,594.0
1998–99	131	22,182.3	145	6,811.8	276	28,994.1
1999–00	97	10,918.6	126	4,357.6	223	15,276.2
2000–01	91	10,487.1	134	6,763.5	225	17,250.6
2001–02	96	11,451.8	133	8,067.6	229	19,519.4
2002–03	99	11,230.7	141	7,282.5	240	18,513.0
2003–04	87	11,045.4	158	9,034.6	245	20,080.1
Total*	**4,810**	**393,748.0**	**3,745**	**151,390.6**	**8,555**	**545,139**

* 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. Amounts may not add to totals because of rounding.

Annex 4

Disbursements by IBRD and IDA Borrowers:
Goods and Services From Canada—To June 30, 2004

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

Annex 4

Disbursements by IBRD and IDA Borrowers:
Goods and Services From Canada—To June 30, 2004 *(cont'd)*

	IBRD Amount	IDA Amount	Total Amount
		(in millions of US dollars)	
By fiscal year			
1987–88	182.1	47.4	229.5
1988–89	197.0	45.0	242.0
1989–90	164.0	41.0	205.0
1990–91	139.0	34.0	173.0
1991–92	131.0	38.0	169.0
1992–93	151.0	41.0	192.0
1993–94	115.0	69.0	184.0
1994–95	123.0	48.0	171.0
1995–96	169.0	56.0	225.0
1996–97	113.0	42.0	155.0
1997–98	82.0	32.0	114.0
1998–99	69.0	37.0	106.0
1999–00	73.0	22.0	95.0
2000–01	45.0	15.0	60.0
2001–02	48.0	16.0	64.0
2002–03	41.0	20.0	61.0
2003–04	41.0	30.0	71.0
Total	**3,008**	**951**	**3,959**
Per cent of total disbursements	2.4	1.8	2.2
Per cent of FY 2004 disbursements	3.8	2.0	2.8

Annex 5

**IBRD Loans and IDA Cumulative Lending by Country—
As of June 30, 2004**

	IBRD loans	IDA loans	Total loans	
	Amount	Amount	No.	Amount
		(in millions of US dollars)		
Borrower or guarantor				
Afghanistan	–	838.3	33	838
Africa region	259.8	425.8	19	686
Albania	–	757.9	52	758
Algeria	5,911.8	–	72	5,912
Angola	–	415.4	14	415
Argentina	21,633.2	–	120	21,633
Armenia	12.0	808.7	35	821
Australia	417.7	–	7	418
Austria	106.4	–	9	106
Azerbaijan	–	622.0	22	622
Bahamas	42.8	–	5	43
Bangladesh	46.1	10,994.6	185	11,041
Barbados	118.4	–	12	118
Belarus	192.8	–	4	193
Belgium	76.0	–	4	76.0
Belize	86.2	–	9	86
Benin	–	814.5	54	815
Bhutan	–	101.1	11	101
Bolivia	314.3	1,886.2	85	2,200
Bosnia and Herzegovina	–	931.3	45	931
Botswana	280.7	15.8	25	297
Brazil	34,450.1	–	291	34,450
Bulgaria	1,951.5	–	31	1,951
Burkina Faso	1.9	1,465.6	63	1,468
Burundi	4.8	1,012.6	56	1,017
Cambodia	–	607.2	24	607
Cameroon	1,347.8	1,227.0	75	2,575
Cape Verde	–	197.9	18	198
Caribbean region	83.0	52.0	7	135.0
Central African Republic	–	448.5	27	449
Chad	39.5	993.6	46	1,033
Chile	3,920.9	19.0	66	3,940
China	28,492.5	9,946.7	254	38,439
Colombia	12,049.1	19.5	175	12,069
Comoros	–	132.4	19	132
Congo, Democratic Republic of	330.0	2,841.5	74	3,172
Congo, Republic of	216.7	333.3	26	550
Costa Rica	938.5	5.5	40	944
Côte d'Ivoire	2,887.9	2,042.5	87	4,930
Croatia	1,245.7	–	23	1,246
Cyprus	418.8	–	30	419
Czech Republic	776.0	–	3	776
Denmark	85.0	–	3	85
Djibouti	–	148.6	16	149
Dominica	4.0	19.3	6	23
Dominican Republic	1,088.5	22.0	39	1,111

Annex 5

IBRD Loans and IDA Cumulative Lending by Country—
As of June 30, 2004 *(cont'd)*

	IBRD loans	IDA loans	Total loans	
	Amount	Amount	No.	Amount
		(in millions of US dollars)		
Eastern Africa	–	45.0	1	45
Ecuador	2,877.2	36.9	81	2,914
Egypt, Arab Republic of	4,900.4	1,984.0	108	6,884
El Salvador	981.4	25.6	36	1,007
Equatorial Guinea	–	45.0	9	45.0
Eritrea	–	445.4	12	445
Estonia	150.7	–	8	151
Ethiopia	108.6	4,503.5	90	4,612
Fiji	152.9	–	12	153
Finland	316.8	–	18	317
France	250.0	–	1	250
Gabon	227.0	–	14	227
Gambia	–	259.2	28	259
Georgia	–	772.8	34	773
Ghana	207.0	4,396.5	116	4,603
Greece	490.8	–	17	491
Grenada	17.0	23.5	6	41
Guatemala	1,404.8	–	40	1,405
Guinea	75.2	1,318.5	61	1,394
Guinea-Bissau	–	292.9	24	293
Guyana	80.0	334.4	32	414
Haiti	2.6	626.5	37	629
Honduras	717.3	1,435.3	71	2,153
Hungary	4,333.6	–	40	4,334
Iceland	47.1	–	10	47
India	30,915.9	30,564.3	448	61,480
Indonesia	28,276.8	1,668.9	305	29,946
Iran, Islamic Republic of	2,849.1	–	45	2,849
Iraq	156.2	–	6	156
Ireland	152.5	–	8	153
Israel	284.5	–	11	285
Italy	399.6	–	8	400
Jamaica	1,660.8	–	69	1,661
Japan	862.9	–	31	863
Jordan	2,319.7	85.3	71	2,405
Kazakhstan, Republic of	1,924.0	–	23	1,924
Kenya	1,200.7	3,612.7	131	4,813
Korea, Republic of	15,647.0	110.8	120	15,758
Kosovo (Serbia and Montenegro)	–	15.0	4	15
Kyrgyzstan	–	680.2	30	680

Annex 5

IBRD Loans and IDA Cumulative Lending by Country— As of June 30, 2004 *(cont'd)*

	IBRD loans	IDA loans	Total loans	
	Amount	Amount	No.	Amount
	(in millions of US dollars)			
Lao People's Democratic Republic	–	722.9	36	723
Latvia	416.0	–	19	416
Lebanon	1,085.4	–	21	1,085
Lesotho	155.0	352.8	32	508
Liberia	156.0	114.5	33	271
Lithuania	490.9	–	17	491
Luxembourg	12.0	–	1	12
Macedonia (Former Yugoslav Republic of)	330.8	378.7	30	709
Madagascar	32.9	2,556.5	92	2,589
Malawi	124.1	2,209.5	86	2,334
Malaysia	4,150.6	–	88	4,151
Maldives	–	64.9	7	65
Mali	1.9	1,692.7	69	1,695
Malta	7.5	–	1	8
Mauritania	146.0	820.7	55	967
Mauritius	459.7	20.2	37	480
Mexico	35,659.0	–	192	35,659
Moldova	302.8	289.2	24	592
Mongolia	–	325.9	19	326
Morocco	8,658.1	50.8	135	8,709
Mozambique	–	2,560.0	47	2,560
Myanmar	33.4	804.0	33	837
Nepal	–	1,916.9	79	1,917
Netherlands, The	244.0	–	8	244
New Zealand	126.8	–	6	127
Nicaragua	233.6	1,217.7	63	1,451
Niger	–	1,200.7	55	1,201
Nigeria	6,248.2	2,136.2	114	8,384
Norway	145.0	–	6	145
Organization of Eastern Caribbean States' countries	10.4	7.1	2	18
Oman	157.1	–	11	157
Pakistan	6,664.2	7,670.9	210	14,335
Panama	1,273.2	–	45	1,273
Papua New Guinea	786.6	113.2	44	900
Paraguay	870.9	45.5	45	916
Peru	5,897.7	–	96	5,898
Philippines	11,419.2	294.2	169	11,713
Poland	5,710.8	–	39	5,711
Portugal	1,338.8	–	32	1,339
Romania	6,214.0	–	73	6,214
Russia	13,241.1	–	57	13,241
Rwanda	–	1,208.5	57	1,209

Annex 5

IBRD Loans and IDA Cumulative Lending by Country—
As of June 30, 2004 *(cont'd)*

	IBRD loans	IDA loans	Total loans	
	Amount	Amount	No.	Amount
	(in millions of US dollars)			
Samoa	–	87.8	13	88
São Tomé and Principe	–	75.4	11	75
Senegal	164.9	2,253.9	102	2,419
Serbia and Montenegro	–	522.0	18	522
Seychelles	10.7	–	2	11
Sierra Leone	18.7	667.4	35	686
Singapore	181.3	–	14	181
Slovak Republic	416.6	–	7	417
Slovenia	177.7	–	5	178
Solomon Islands	–	49.9	8	50
Somalia	–	492.1	39	492
South Africa	302.8	–	13	303
Spain	478.7	–	12	479
Sri Lanka	210.7	2,837.1	97	3,048
Saint Kitts and Nevis	29.0	7.0	5	36
Saint Lucia	22.9	28.2	8	51
Saint Vincent and the Grenadines	8.5	14.7	5	23
Sudan	166.0	1,352.9	55	1,519
Swaziland	104.8	7.8	14	113
Syrian Arab Republic	613.2	47.3	20	661
Taiwan, Province of China	329.4	15.3	18	345
Tajikistan	–	332.9	19	333
Tanzania	318.9	4,612.0	128	4,931
Thailand	8,063.4	125.1	125	8,188
Timor-Leste	–	4.0	–	4
Togo	20.0	733.5	42	754
Tonga	–	21.8	4	22
Trinidad and Tobago	333.6	–	22	334
Tunisia	5,232.9	74.6	124	5,307
Turkey	22,003.7	178.5	151	22,182
Turkmenistan	89.5	–	3	90
Uganda	9.1	3,997.5	89	4,007
Ukraine	3,804.9	–	28	3,805
Uruguay	2,370.7	–	53	2,371
Uzbekistan	554.1	45.0	13	599
Vanuatu	–	18.9	5	19
Venezuela	3,328.4	–	40	3,328
Vietnam	–	4,861.1	43	4,861
Western Africa region	6.1	52.5	4	59
Yemen, Republic of	–	2,318.3	131	2,318
Yugoslavia, Federal Republic of	6,090.7	–	89	6,091
Zambia	679.1	2,691.8	82	3,371
Zimbabwe	983.2	662.0	36	1,645
Bank-wide total	**393,748.0**	**151,390.6**	**8,555**	**545,139**

Annex 6

Projects Approved for IBRD and IDA Assistance in Fiscal Year 2004, by Country (July 1, 2003–June 30, 2004)

	IBRD loans	IDA loans	Total loans	
	Amount	Amount	No.	Amount
		(in millions of US dollars)		
Borrower or guarantor				
Afghanistan	–	293.0	5	293.0
Africa region	–	351.4	4	351.4
Albania	–	58.0	3	58.0
Angola	–	55.0	1	55.0
Argentina	1,585.8	–	4	1,585.8
Armenia	–	84.8	6	84.8
Azerbaijan	–	25.0	2	25.0
Bangladesh	–	526.5	6	526.5
Benin	–	20.0	1	20.0
Bhutan	–	36.8	2	36.8
Bolivia	15.0	54.0	3	69.0
Bosnia and Herzegovina	–	97.0	3	97.0
Brazil	1,267.3	–	5	1,267.3
Bulgaria	150.0	–	1	150.0
Burkina Faso	–	120.0	3	120.0
Burundi	–	110.4	3	110.4
Cambodia	–	60.0	2	60.0
Cameroon	–	20.0	1	20.0
Cape Verde	–	4.0	–	4.0
Caribbean region	–	9.0	1	9.0
Chad	–	20.0	1	20.0
Chile	210.7	–	2	210.7
China	1,218.3	–	9	1,218.3
Colombia	645.0	–	5	645.0
Comoros	–	13.3	1	13.3
Congo, Democratic Republic of	–	736.0	5	736.0
Congo, Republic of	–	19.0	1	19.0
Croatia	209.0	–	3	209.0
Dominica	–	3.0	1	3.0
Dominican Republic	119.8	–	3	119.8
Ecuador	54.0	–	2	54.0
Egypt, Arab Republic of	340.5	–	2	340.5
Ethiopia	–	320.0	3	320.0
Georgia	–	47.6	2	47.6
Ghana	–	160.5	3	160.5
Guinea-Bissau	–	7.0	1	7.0
Guyana	–	10.0	1	10.0
Honduras	–	154.9	6	154.9

Annex 6

Projects Approved for IBRD and IDA Assistance in Fiscal Year 2004, by Country (July 1, 2003–June 30, 2004) *(cont'd)*

	IBRD loans	IDA loans	Total loans	
	Amount	Amount	No.	Amount
		(in millions of US dollars)		
India	389.5	1,033.0	7	1,422.5
Indonesia	266.0	55.8	3	321.8
Iran	359.0	–	2	359.0
Jordan	38.0	–	1	38.0
Kenya	–	264.7	4	264.7
Kosovo (Serbia and Montenegro)	–	4.0	1	4.0
Kyrgyzstan	–	31.0	3	31.0
Lao People's Democratic Republic	–	35.7	2	35.7
Lebanon	5.3	–	–	5.3
Lesotho	–	21.0	1	21.0
Macedonia (Former Yugoslav Republic of)	54.8		4	54.8
Madagascar	–	230.0	3	230.0
Mauritania	–	84.0	3	84.0
Malawi	–	116.0	4	116.0
Mali	–	127.4	4	127.4
Mexico	666.2	–	6	666.2
Moldova	–	63.0	3	63.0
Mongolia	–	18.0	1	18.0
Morocco	36.9	–	1	36.9
Mozambique	–	97.3	2	97.3
Nepal	–	185.8	4	185.8
Nicaragua	–	100.5	3	100.5
Niger	–	109.8	3	109.8
Nigeria	–	322.0	4	322.0
Pakistan	50.0	731.2	7	781.2
Paraguay	54.0	–	2	54.0
Peru	357.0	–	4	357.0
Philippines	96.9	–	4	96.9
Poland	326.0	–	2	326.0
Romania	230.0	–	2	230.0
Russian Federation	100.0	–	1	100.0
Rwanda	–	20.0	1	20.0
Samoa	–	17.3	2	17.3
Sao Tomé and Principe	–	6.5	1	6.5
Senegal	–	45.0	1	45.0
Serbia and Montenegro	–	125.0	6	125.0
Sierra Leone	–	25.1	1	25.1
Slovak Republic	75.3	–	2	75.3
Sri Lanka	–	175.7	3	175.7
Saint Lucia	3.7	3.8	1	7.5
Saint Vincent and the Grenadines	3.1	3.1	1	6.2

Annex 6

Projects Approved for IBRD and IDA Assistance in Fiscal Year 2004, by Country (July 1, 2003–June 30, 2004) *(cont'd)*

	IBRD loans	IDA loans	Total loans	
	Amount	Amount	No.	Amount
	(in millions of US dollars)			
Tajikistan	–	10.8	1	10.8
Tanzania	–	451.0	5	451.0
Thailand	84.3	–	1	84.3
Timor-Leste	–	4.0	1	4.0
Tonga	–	10.9	1	10.9
Tunisia	166.3	–	2	166.3
Turkey		1,585.7	5	1,585.7
Uganda	–	189.6	2	189.6
Ukraine	282.0	–	2	282.0
Vietnam	–	705.5	4	705.5
Yemen, Republic of	–	145.0	3	145.0
Zambia	–	50.0	1	50.0
Bank-wide total	**11,045.4**	**9,034.6**	**245**	**20,080.1**

Annex 7

2004 Communiqués of the International Monetary and Financial Committee of the Board of Governors of the IMF

Washington, D.C.
April 24, 2004

1. The International Monetary and Financial Committee held its ninth meeting in Washington, D.C. on April 24, 2004 under the Chairmanship of Mr. Gordon Brown, Chancellor of the Exchequer of the United Kingdom.

The Global Economy and Financial Markets—Sustaining the Recovery

2. The Committee welcomes the strengthening of the global economic recovery since its meeting last September. Industrial production and global trade have picked up sharply, and improved prospects in most regions point to stronger global growth going forward. However, a number of risks remain. These arise from large global imbalances, medium-term fiscal challenges in many countries, and the implications of the eventual transition to a higher interest rate environment. Continuing geopolitical uncertainties and developments in oil markets also remain important concerns.
3. The priority now is to implement the macroeconomic and structural policy measures that will help achieve a robust, balanced, and sustainable recovery. Structural reforms are essential to improve growth potential. Priority should be given to medium-term fiscal consolidation; reforms of pension and health care systems; better functioning labor and product markets; and reducing vulnerabilities in banking and corporate sectors. The Committee calls on all countries and regions to play their part and cooperate in addressing global imbalances.
4. The economy of the United States is expanding briskly, and Japan's economy continues to recover. The recovery in the euro area so far is more subdued. Monetary policy in advanced economies will need to remain consistent with price stability and support the recovery; in many countries where growth is strengthening, interest rates will over time need to rise to more neutral levels; and it will be important to communicate policy intentions clearly. The Committee encourages countries to take advantage of the current environment to strengthen the foundations for sustainable growth. Priorities for action include: medium-term fiscal consolidation in the United States; acceleration of structural reforms in the euro area; and continued banking and corporate reforms in Japan. Fiscal consolidation is also needed in the euro area and Japan.

5. The Committee is encouraged by the strong performance and recovery in many emerging market and developing countries, which has been aided by improved fundamentals and a rebound in private capital flows. Countries should continue to use the opportunity provided by the favorable financial market environment to strengthen growth prospects and reduce vulnerabilities. This will require steps to further strengthen fiscal positions and improve the structure and sustainability of debt, sustained and broad-ranging structural reforms, and, in some emerging market countries, a move toward more exchange rate flexibility as appropriate. The Committee welcomes the improvement in Argentina's macroeconomic performance, and calls on the government to continue to push ahead with full implementation of the policies and provisions of its economic recovery program aimed at strengthening growth, including negotiations aimed at reaching a sustainable debt restructuring through a collaborative agreement with creditors.
6. Economic performance in many low-income countries continues to improve. Nevertheless, the Millennium Development Goals (MDGs) set out in the UN Millennium Declaration remain at risk, particularly in sub-Saharan Africa, and much remains to be done by all partners in the global effort to deliver them. The Committee underscores that stronger domestic institutions, sound economic policies, trade integration, and less burdensome regulation will be needed to underpin faster growth and poverty reduction. It welcomes the recent steps taken through the New Partnership for Africa's Development (NEPAD) and the African Union to improve governance and eradicate corruption. It calls on the international community to provide additional and coordinated assistance—including technical assistance, policy advice, increased and more effective aid including grants, debt relief, and greater access to industrial country markets.
7. The Committee received the report of Dr. Supachai Panitchpakdi, Director-General of the World Trade Organization. It reiterates the critical importance of open markets for supporting broad-based global economic growth and prosperity. The Committee calls for constructive and determined efforts by all countries to achieve early progress with the Doha Round, focusing on the issues of importance to all countries of open markets and fair access, and the reduction of trade-distorting subsidies in all areas, notably in agriculture. A successful completion of the round is a shared responsibility, important for all countries, particularly developing countries. The Committee supports the IMF's role in advocating trade liberalization and helping members to take all the necessary actions to gain full advantage of the opportunities provided by more open trade. It welcomes the IMF's decision to establish a Trade Integration Mechanism, designed as a temporary policy to address concerns associated with the current round of multilateral trade negotiations.

Crisis Prevention and IMF Surveillance Across the Membership: Priorities, Tools, and Modalities

8. Effective and evenhanded IMF surveillance remains an essential element of the international community's efforts to enhance crisis prevention, promote financial stability, and foster high and sustainable growth. The Committee especially welcomes the increased focus of surveillance on: financial sector and capital market issues—including the work from the Financial Sector Assessment Program, Reports on the Observance of Standards and Codes, and Offshore Financial Center assessments; economic developments and policies in countries of systemic or regional importance; early identification of potential vulnerabilities; and institutional foundations of growth. It also welcomes the work already underway and the proposed pilots on the treatment of public investment in IMF advice and arrangements with a view to protecting infrastructure investment, consistent with macroeconomic stability and debt sustainability.
9. The Committee welcomes efforts to bring a fresh perspective to the surveillance of program countries, and the decisions taken to increase the transparency of surveillance. It calls for a strengthening of efforts to ensure the objectivity of surveillance (including through debt sustainability analysis), and requests the IMF to explore ways to support countries' own economic efforts when the IMF is not providing financial assistance. The Committee looks forward to the forthcoming biennial review of surveillance, which should provide a thorough assessment and candid review of surveillance, and propose ways to enhance its focus, quality, persuasiveness, impact, and overall effectiveness.
10. The Committee welcomes the greater focus on vulnerabilities and key issues for surveillance identified at its meeting in Dubai: improving debt sustainability; reducing balance sheet vulnerabilities; and making progress on structural reform and sustainable medium-term fiscal frameworks. It agrees that further progress in these areas, as well as with policies to facilitate the adjustment of global imbalances, remain key priorities for surveillance in the coming year. Surveillance will also need to pay due attention to relevant political risks and to vulnerabilities to exchange rate and interest rate movements.
11. The Committee looks forward to further work on ways to reduce vulnerabilities and provide support for members with strong policies in dealing with external financial developments. It looks forward to the upcoming discussion of precautionary arrangements and their potential to assist members' own efforts to prevent balance of payments crises and as a possible exit strategy from IMF financial support.

12. The Committee welcomes the inclusion by an increasing number of countries of collective action clauses (CACs) in their international sovereign bonds and the convergence toward a market standard. It calls on the IMF to continue to promote progress in this area. The Committee also encourages sovereign debtors and private creditors to continue their work on a voluntary Code of Conduct, and looks forward to reviewing further work on issues of general relevance to the orderly resolution of financial crises. The Committee takes note of the Executive Board's ongoing review of the framework, and application of procedures, for exceptional access to IMF resources. It calls on the IMF to continue reviewing implementation of its lending into arrears policy.

Enhancing IMF Support to Low-Income Members: Instruments and Financing; IMF-World Bank Collaboration; and Promoting Debt Sustainability

13. The Committee reiterates that the IMF—in partnership with multilateral development banks and donors—has an important role to play in assisting its low-income members with effective policy advice, financing, and technical assistance to achieve high and sustained growth and poverty reduction. It welcomes the progress on better tailoring the IMF's assistance to the differing financing and policy needs of low-income countries. The Committee looks forward to further work on a strengthened process of surveillance for those countries where the IMF is not providing financing, with a view toward enhancing the signaling role of surveillance and promoting country ownership. It underscores the importance of improving the macroeconomic design of PRGF-supported programs, including the social impact. The Committee underscores the importance of maintaining an adequate PRGF financing capacity. In order to meet future needs, it calls for further discussions on the financing of a self-sustained PRGF. The Committee welcomes that some countries have indicated a willingness to provide additional resources.
14. The Committee reiterates that the Monterrey Consensus and Poverty Reduction Strategy Paper (PRSP) approach provide the appropriate framework for the IMF's engagement with low-income countries and its participation in global efforts toward achieving the MDGs. It encourages a further sharpening of the focus of PRSPs and PRGF-supported programs to enhance their linkage to the MDGs and their operational usefulness for policy choices and donor coordination. The first Global Monitoring Report on meeting the MDGs highlights the significant remaining challenges. The Committee expresses concern that on current trends, most MDGs will not be met without an increase in the level and effectiveness of financial resources in support of strong policies. It looks forward to reviewing at its next meeting the ongoing joint work with the World Bank on aid effectiveness, absorptive capacity, results-based measurement mechanisms, and various policy options and financing mechanisms, such

as an international financing facility and other options. In this regard, it welcomes the consultation with emerging markets and developing countries. The Committee welcomes the recent review of IMF-World Bank collaboration, and supports the plans for improved coordination.

15. The Committee welcomes the progress in providing debt relief under the enhanced HIPC Initiative, with a further five countries reaching their completion point since the Annual Meetings. It looks forward to continued further progress toward full implementation of the Initiative, and takes note of the work being undertaken on options for addressing the sunset clause. The Committee urges all creditors that have not yet done so to deliver debt relief in full. It welcomes the development by the IMF and the World Bank of a debt sustainability framework for low-income countries, and looks forward to further work to make it operational.

Other Issues

16. The Committee underscores the importance of IMF technical assistance in supporting members' efforts to build institutional capacities and implement sound economic policies and financial systems, which will lay the foundations for sustained growth and poverty reduction.
17. The Committee underscores the importance of further determined action by the international community to combat money laundering and the financing of terrorism. It welcomes the significant progress that has been made under the 12-month IMF/World Bank pilot program of AML/CFT assessments. The Committee endorses the recent decision by the Executive Board to make the scope of the IMF's involvement in AML/CFT assessments comprehensive and a regular part of the IMF's work. It encourages all international organizations and bodies to work together closely in conducting assessments and delivering critically needed technical assistance. The Committee urges all members to adopt and implement the revised FATF 40 + 8 Recommendations as the accepted international standard.
18. The IMF's effectiveness and enhanced credibility as a cooperative institution also depends on all members having appropriate voice and representation. Efforts should continue to be made to enhance the capacity of developing and transition countries to participate more effectively in IMF decision-making. The Committee calls on the Executive Board to continue its work on IMF quotas, voice and representation, and looks forward to a report on progress at its next meeting. The Committee recommends completion of the ratification of the Fourth Amendment.
19. The IMF's liquidity is adequate to meet the near-term projected needs of its members although continued monitoring will be important.

20. The Committee welcomes the high-quality work of the Independent Evaluation Office, and looks forward to its reports on PRSP/PRGFs, technical assistance, and the role of the IMF in Argentina from 1991 to 2002.
21. The Committee pays tribute to Mr. Horst Köhler for his leadership of the International Monetary Fund as Managing Director during the past four years. In the face of a difficult world economic situation and unprecedented challenges for the international community, Mr. Köhler has worked tirelessly to promote close international cooperation so that all can share in the benefits of globalization. He has strengthened the IMF's role in working for the stability of the international financial system, has helped the IMF lead the international effort to assist low-income countries, and has instilled a listening and learning culture in the IMF that will change the way in which the IMF interacts with members and civil society.
22. The Committee also acknowledges the contribution of Mr. Jacques J. Polak through 57 years of service to the IMF.
23. The next meeting of the IMFC will be held in Washington, D.C. on October 2, 2004.

Washington, D.C.
October 2, 2004

1. The International Monetary and Financial Committee held its tenth meeting in Washington, D.C. on October 2, 2004, under the Chairmanship of Mr. Gordon Brown, Chancellor of the Exchequer of the United Kingdom. The Committee welcomes Mr. Rodrigo de Rato as the new Managing Director, and looks forward to working closely with him on furthering the goals of global stability and prosperity.

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

2. The Committee welcomes the strengthening and broadening of global economic growth in 2004, supported by a strong upturn in global trade, supportive policies, and favorable financial market conditions. The global expansion is expected to continue at a solid pace provided all countries implement policies and reforms that will promote robust, balanced, and sustainable growth. The Committee notes that downside risks to the recovery have recently increased, stemming in part from the increase and volatility in oil prices. These reflect geopolitical tensions, strong global demand, and market dynamics. The IMF stands ready to assist members that may be adversely affected.
3. The Committee reiterates the desirability of stability in oil markets and prices which are consistent with lasting global prosperity. To this end, it welcomes the decisions by oil-producing countries to continue to expand production and urges further measures to increase capacity, and calls on oil-consuming countries to take measures to promote energy sustainability

and efficiency. The Committee also stresses the importance of dialogue between consumers and producers, and of further progress to improve oil market information and transparency.

4. The strength of the global recovery has set the stage for a gradual return to more neutral monetary policies, with the desirable pace and timing of tightening varying across countries, depending on cyclical positions. Continued good communication of policy intentions will be essential to facilitate orderly adjustment in financial markets to higher interest rates, where needed. Inflation remains low and risks to price stability remain moderate. However, policymakers should be ready to contain any inflationary pressures, including from higher commodity prices, thereby ensuring noninflationary growth.
5. All countries should take advantage of the recovery to address medium-term vulnerabilities and challenges with renewed commitment. The Committee considers that bold reforms on a wide front are needed to strengthen fiscal positions, remove structural impediments to growth, support the correction of global imbalances, reduce financial and corporate vulnerabilities, and accelerate poverty reduction.
6. Fiscal consolidation remains a key priority in many countries. In the advanced economies, credible medium-term fiscal frameworks should be based on well-defined policies, and ensure progress on consolidation particularly in good times. Reforms of pension and health care systems will also be critical to address the fiscal pressures from population aging. Although many emerging market countries are making good progress in improving the structure of public debt and strengthening fiscal positions, further efforts are needed to bring public debt down to levels that will build adequate resilience to shocks. Broad tax bases, effective and transparent public expenditure management, and structural measures to boost growth will be important to improve debt sustainability and meet social and infrastructure spending priorities.
7. Structural reforms remain crucial to strengthen the foundations for sustained growth. Most advanced economies should step up their efforts to increase economic efficiency and flexibility to take full advantage of the opportunities from rapid technological change and global integration. Boosting sustainable growth and increasing economic resilience across emerging market countries, depending on country circumstances, will involve: completing financial and corporate sector reforms; strengthening banking supervision and developing domestic capital markets; improving the investment climate; and promoting economic diversification. The Committee notes the importance of addressing the economic implications of demographic changes. Depending on country circumstances, policies will need to focus on boosting labor supply, increasing public and private savings, and lifting productivity.

8. Policies to support an orderly resolution of global imbalances are a shared responsibility, and key to reinforcing the basis for more balanced and sustainable growth. The Committee underscores the importance of progress on medium-term fiscal consolidation in the United States, continued structural reforms to boost growth in Europe and Japan, and, in emerging Asia, steps toward greater exchange rate flexibility, supported by continued financial sector reform, as appropriate. Also, improving information and transparency in markets, including the role of hedge funds, would help strengthen market surveillance. The Committee welcomes the recent improvement in Argentina's fiscal position since 2002. The Committee supports that Argentina decisively addresses all the outstanding structural issues in their program, completes a comprehensive and sustainable debt restructuring, and ensures a sustainable medium-term fiscal framework. We welcome the efforts by Argentina toward completing a comprehensive and sustainable debt restructuring and hope for an expeditious conclusion to the process.
9. The Committee emphasizes that in the coming months IMF surveillance should focus on a number of key issues, including: the impact of higher oil prices, especially on the most vulnerable; the sustainability of medium-term fiscal positions and debt in many members; and managing the policy response to potential inflationary pressures.
10. The Committee calls on all partners to strengthen their commitment to the global effort to reduce poverty. The recent strong growth in most low-income countries is welcome, but the Committee is concerned that in many cases, particularly in sub-Saharan Africa, growth remains inadequate for achieving the Millennium Development Goals (MDGs).[1] The key challenge for these countries—as recognized in the New Partnership for Africa's Development—is to press ahead with efforts to further strengthen institutions and governance, to build on the macroeconomic stabilization that has been achieved. The international community needs to support these efforts with more open markets for these countries' exports, increased and better-coordinated aid and technical assistance, further debt relief, and sound policy advice.
11. An open and inclusive multilateral trading system is central to global growth and economic development, especially for developing countries. The Doha Round offers a unique opportunity for substantial progress toward this objective, and the Committee is encouraged by the recent decisions on negotiating frameworks. We endorse the "July Package" and urge all parties to work toward concrete advances in liberalizing trade, strengthening multilateral trade rules, and reducing trade-distorting subsidies, notably in agriculture. To achieve ambitious trade liberalization will require the full commitment of all parties, in particular strong leadership

[1] As endorsed by Heads of State and Government in the UN General Assembly on September 8, 2000.

from the major trading nations and readiness of all countries to embrace the opportunities provided by more open trade. The Committee supports the IMF's continued role in advocating trade liberalization and assisting members, including through the Trade Integration Mechanism.

Making Surveillance More Effective and Strengthening Crisis Prevention

12. Effective and evenhanded IMF surveillance across the whole membership is central to promoting high and sustainable growth in member countries and to crisis prevention. The increasing interdependence of the membership reinforces the importance of effective surveillance of systemically-important countries and capital markets. The Committee welcomes the progress made in strengthening surveillance, and the steps identified during the recent biennial surveillance review to enhance its overall effectiveness. A focus on implementation is now needed. The Committee calls upon the IMF to continue its efforts to strengthen its economic analysis and policy advice; systematically evaluate the appropriateness of that advice; complement multilateral and bilateral surveillance with a focus on regional issues; improve the quality of the policy dialogue with members (including through increased cross-country analysis where relevant); strengthen communications to markets and the public of the IMF's policy messages while preserving its role as a candid and confidential advisor; and develop a methodology for better assessing the effectiveness of surveillance.
13. Toward meeting these objectives, the achievement of which should be assessed in the next surveillance review, the Committee agrees that priority should be given to sharpening the focus of Article IV consultations, including a deepening of the discussion of exchange rate issues; enhancing financial sector surveillance; and better integrating debt sustainability analysis and regional and global spillovers into country surveillance. Further progress in reducing balance sheet vulnerabilities, and further work on surveillance in low-income countries will also be monitored in the next review of surveillance.
14. Progress in bringing a fresh perspective to the surveillance of program countries should be kept under review, and lessons learned from ex-post assessments of program performance should be carefully implemented. It is important to assess the extent to which earlier IMF advice was acted on by countries, taking account of the countries' views. The Committee looks forward to the forthcoming reviews of the standards and codes initiative and the Financial Sector Assessment Program, reflecting the increasing importance of financial system stability. The Committee calls for a strengthening of efforts to ensure the objectivity of surveillance, including through enhanced debt sustainability analysis covering all member countries.

15. The Committee welcomes consideration of whether there are gaps in the IMF's range of instruments and policies. It notes the preliminary discussions of possible new modalities for high-frequency policy monitoring and delivering signals on the strength of a member's economic policies outside the context of an IMF financial arrangement. The Committee notes the role that existing precautionary IMF instruments are playing in signaling the strength of members' policies; and the possible role for a precautionary PRGF, and precautionary and other financing instruments designed to prevent the emergence or spread of capital account crises. It calls for further work on these proposals, including the usefulness and potential demand, in close consultation with potential users, donors, and creditors, and calls for a report at its next meeting.
16. The Committee welcomes the increased adoption of collective action clauses (CACs) in international sovereign bonds, and calls on the IMF to continue to promote progress in this area. It notes recent initiatives aimed at achieving a broad consensus between sovereign issuers and their creditors on voluntary principles for emerging markets' crisis management and debt restructuring. The Committee looks forward to reviewing further work on general issues of relevance to the orderly resolution of financial crises, including implementation of the IMF's lending into arrears policy.

Enhancing International Support for Low-Income Members

17. The Committee supports the ongoing work to clarify and strengthen the IMF's role in low-income countries, which should be based on country ownership and close cooperation with other multilateral institutions and bilateral donors. The IMF has an important role in supporting—through policy advice, capacity building, and financial assistance, including debt relief—low-income countries' efforts to achieve the macroeconomic stability and high growth needed to make progress toward the MDGs. The Committee looks forward to further work on the financing and modalities of the IMF's engagement with low-income members, including the financing of the PRGF after 2006 to maintain adequate capacity to meet future needs, instruments to help members face shocks, and ways to improve monitoring and signaling. The Committee notes the joint report of the IMF and the World Bank on aid effectiveness and financing modalities. It encourages further analysis by the World Bank and IMF of aid effectiveness, absorptive capacity, results-based measurement mechanisms, and financing modalities and mechanisms to augment aid flows, such as the International Finance Facility, global taxes, and other innovative mechanisms, and looks forward to a further report.
18. The Committee supports continued efforts to strengthen the Poverty Reduction Strategy Papers (PRSP) approach and IMF support to low-income countries under the PRGF. It welcomes the report of the Independent Evaluation Office on the PRSP/PRGF, and the work underway to follow up on its recommendations. To support implementation of the Monterrey Consensus, the Poverty Reduction

Strategy (PRS) process should be improved and become better integrated into each country's domestic policy-making processes, and international assistance, including from the IMF, should become more fully coordinated with domestic economic priorities. The Committee looks forward to the work on improving the role of the IMF in the PRS process, and on the design of policy programs supported by the PRGF. It calls for increased incorporation of poverty and social impact analysis into PRGF-supported programs, and for more extensive analyses of the sources of and obstacles to growth, and the linkages between poverty reduction and economic growth.

19. The Committee welcomes the progress in providing debt relief under the HIPC Initiative, which has been extended for two more years, encourages eligible countries to take the necessary actions to benefit from the Initiative, and urges full creditor participation. The Committee supports the IMF's and the World Bank's work on a single framework to assist low-income countries' efforts to achieve and maintain robust debt sustainability while pursuing their development objectives. It looks forward to further consideration of outstanding issues in the proposed framework for debt sustainability, before it is made fully operational, and of further debt relief, including its financing.

Other issues

20. The IMF's effectiveness and credibility as a cooperative institution depend on all members having appropriate voice and full participation in its processes. The Committee takes note of the IMF Executive Board's status report regarding work on quotas, voice, and representation. It encourages the Board to consider further issues of voice, quotas, and participation, noting as the Board agreed, that progress will require broad consensus among the shareholders. The Committee recommends completion of the ratification of the Fourth Amendment.
21. The IMF's liquidity is adequate to meet the near-term projected needs of its members, although continued monitoring will be important.
22. The Committee expresses its appreciation of the work of Mr. Montek Singh Ahluwalia as first Director of the Independent Evaluation Office (IEO). It looks forward to continued high-quality reports by the IEO.
23. The 60th anniversary of the IMF is a timely opportunity to reflect on the forces that will help shape the institution's priorities going forward. The Committee welcomes the preliminary consideration by the Executive Board of the work on the IMF's strategic direction initiated by the Managing Director, and looks forward to a discussion at its next meeting. It also welcomes the continuing progress in reforming the IMF's budgetary framework.
24. The next meeting of the IMFC will be held in Washington, D.C. on April 16, 2005.

Annex 8

2004 Communiqués of the Development Committee of the Boards of Governors of the World Bank and IMF

Washington, D.C.
April 25, 2004

1. The strategies and decisions agreed in Doha, Monterrey and Johannesburg set out a framework for fighting poverty and achieving the internationally agreed goals of the Millennium Declaration, based on countries pursuing sound policies and good governance, combined with stronger international cooperation and support. We met today to assess progress based on the first *Global Monitoring Report*. We welcomed the report which provides a good basis for our yearly review. Building on this work, future reports should focus on the agenda of monitorable actions in the identified priority areas in order to reinforce accountabilities and enhance cooperation amongst all development partners.
2. We recognize that there has been progress on many fronts, including significant reforms undertaken by developing countries and important gains in reducing income poverty. However, we are very concerned that, based on current trends, most Millennium Development Goals (MDGs) will not be met by most developing countries, particularly in sub-Saharan Africa. All parties, developing and developed countries and the international institutions, must urgently enhance concerted action to accelerate progress towards these goals.
3. Sustainable and inclusive growth needs to be accelerated in many developing countries, in particular through: improving the enabling climate for private sector activity; strengthening reforms, capacity and results focus in public institutions and improving the quality of governance; scaling up effective investment in infrastructure; and ensuring access to healthcare, education and other basic social services and fighting the HIV/AIDS epidemic.
4. Specific priorities must be determined at the country level in the context of country-owned and monitored development strategies, as reflected in the Poverty Reduction Strategy Papers (PRSPs) in the case of low-income countries and respective national strategy frameworks in middle-income countries (MICs). We look forward to reviewing progress on the Bank's efforts to enhance its support for development in MICs at a future meeting. Given the centrality of faster and more equitable economic growth for making greater progress on the MDGs, we welcomed the efforts of the Bank to support stronger investment climates in developing countries and we intend to discuss improving the climate for private sector activity at our next meeting. As we have noted previously, infrastructure investment within the right policy environment makes a fundamental contribution to economic growth and achievement of the MDGs. The implementation of the infrastructure action plan of the Bank has been reviewed by the Board of Directors and we look forward to a discussion on progress at our next meeting.

5. Developed countries must meet their commitments to help accelerate progress. Sustaining stable, balanced and strong growth in the global economy is a prerequisite. Ensuring a successful, pro-development, and timely outcome to the Doha Development Agenda is critical to global growth and the economic prospects of developing countries. We stressed our commitment to a constructive and determined effort to move the multilateral trade agenda forward. We again stressed that it is essential for developed countries to do more to liberalize their markets and eliminate trade distorting subsidies, including in the areas of agriculture, textiles and clothing, which are of particular importance for developing countries. At the same time, we emphasized the importance of trade facilitation and liberalization efforts in developing countries. We welcomed the Bank's continuing efforts to promote trade facilitation and the Integrated Framework, as well as the IMF's recently adopted Trade Integration Mechanism, which will provide additional support and assurances to developing countries as they integrate further into the global trading system. We also urged continued efforts to tailor Bank lending activities to support capacity building and country-owned trade initiatives. We noted the growing importance of migration, and with it, workers' remittances and called for further work to improve understanding of their determinants and to create a supportive environment to enhance their development impact.
6. More aid is also required. It should be predictable, timely, long-term and more effective. We urged developed countries that have not done so to make concrete efforts towards the target of 0.7 percent of GNP as ODA. A substantial and timely agreement on the funding of IDA 14 will be a critical affirmation of our commitment to mobilize the resources for our support for strong, results-oriented action by partners in the poorest countries.
7. We noted a progress report on financing modalities and we look forward to a report at our next meeting on aid effectiveness, absorptive capacity, results-based measurement mechanisms and elaboration of policy options and financing mechanisms for mobilizing additional resources (including examining an international finance facility, global taxation and other proposals). More aid can only be sustained by showing positive results. This requires a strengthened effort to implement the Declaration of the Rome High Level Forum on Harmonization and the Core Principles of Marrakech including strengthening country capacity to manage for results. We support the work by the OECD/DAC, jointly with development partners, to address the continuing divide between agreed global policies and detailed operational procedures and country-level practices.
8. We also recalled that the IFIs are accountable for their contribution to implementing the Monterrey consensus. Key areas for action include harmonization, managing for results, and responsiveness to clients. We urged them to increase their efforts to identify and meet needs of client countries. Taking into account fiscal constraints facing clients, we encouraged the Bank to consider new innovative products, improve

internal efficiencies and simplify the application of lending policies in order to reduce the costs of doing business while respecting fiduciary and safeguard standards.

9. In April 2002, we endorsed the plan to help make primary education a reality for all children by 2015 and achieve gender equality in primary and secondary education by 2005. The Fast Track Initiative (FTI) was designed to address the data, policy, capacity and resource gaps that constrain progress in achieving Education For All. Its implementation has highlighted the potential as well as the challenges associated with scaling up the MDG agenda more generally and in particular, the need for credible, effective and predictable financing in support of adequate policies and programs. The experience of FTI so far has demonstrated that it should be anchored in countries' Poverty Reduction Strategies if it is to be effective. We urged all countries, developed and developing, to take the additional steps required to make this initiative succeed and requested the Bank Board to continue to monitor progress.
10. We also reviewed implementation of the HIPC Initiative and recalled the importance of full creditor participation for its success. Thirteen countries have reached the completion point and another 14 are between decision and completion point. However, 11 countries, several of which are affected by conflict and some with protracted arrears, are either yet to reach the decision point or to begin establishing a track record under a Fund-supported program. We urged the Bank and the Fund to help facilitate these countries' rapid access to HIPC debt relief when their outstanding issues are addressed. We also urged that careful consideration be given to options to deal with the HIPC sunset clause which is scheduled to take effect end-2004.
11. We broadly supported the principles underlying the proposed framework for debt sustainability in low-income countries while acknowledging that the modalities and operational implications remained to be clarified. We stressed the need for a consistent and coordinated approach among borrowers, creditors and donors, to ensure that resources to low-income countries are provided on appropriate terms, including the degree of concessionality and level of grant financing. This must build on full implementation of the HIPC initiative. We also welcomed work by the Fund and the Bank on measures and instruments to assist low-income countries deal with exogenous shocks and urged them to accelerate their work, in close collaboration, for early consideration by the Boards.
12. Strengthening the voice and participation of developing and transition countries in the work and decision making of the Bretton Woods institutions remains a major challenge. We welcomed the further progress, particularly on capacity building, made since our last meeting, including the establishment of an Analytical Trust Fund to support the African Chairs and a secondment program at the Bank. We look forward to receiving reports from our Boards on all aspects of this issue and to further discussion at the 2004 Annual Meeting.

13. The next meeting of the Committee will be held in Washington, D.C. on October 3, 2004.

Washington, D.C.
October 2, 2004

1. As we celebrate the 60th anniversary of the Bretton Woods Institutions and approach the fifth anniversary of the U.N. Millennium Declaration, we recommit ourselves to supporting efforts by developing countries to pursue sustainable growth, sound macroeconomic policies, debt sustainability, open trade, job creation, poverty reduction and good governance. These actions need to be reinforced by stronger international action and partnerships, including reforming trade, more and more effective aid and stronger private flows in order to make progress on the Millennium Development Goals[1]. We remain concerned that most MDGs will not be met by most developing countries.
2. Global economic growth is strong, supported by exceptionally robust growth in developing countries, as the world benefits from the significant reforms undertaken by many countries over recent years. Private sector driven growth resulting in new jobs and higher tax revenues, which can be used to finance poverty-reducing public expenditures, is critical to the success of country-led efforts to reduce global poverty. Success in the Doha Development Agenda can only complement these developments and we stress the importance of translating the recently agreed WTO frameworks into tangible results. We urge all countries, developing and developed, to participate fully in the negotiations and urge the IMF and World Bank to continue to support work to this end, and to help developing countries assess the impact and to provide additional support to address potential adjustment costs.
3. To help developing countries take advantage of the new opportunities that can arise from a better economic setting and to strengthen the foundations for economic growth, we welcome the renewed focus being given by the World Bank Group to private sector development, improving the investment climate and strengthening financial sectors, and urge the Bank to continue to translate this into country operations. Complementing macroeconomic stability, capacity building and a greater results focus in public services and institutions and improving the quality of governance, successful private sector investment, social development as well as gender equality are key to accelerating pro-poor growth. We note the important role played by remittances in this context. We urge the Bank to intensify its analytical work on the potential sources of growth and ways to mobilize them and to help countries build the relevant analytical capacity.
4. Strengthening the foundations for growth will also critically depend on addressing large infrastructure needs in many countries. We welcome the Bank Group's plans to scale-up activities in implementing the

[1] As endorsed by Heads of State and Government in the U.N. General Assembly on September 8, 2000.

Infrastructure Action Plan and urge accelerated support of country efforts in accordance with the Bank's safeguards. We emphasized the importance of addressing maintenance and other costs to ensure the sustainability of infrastructure investments. We also stressed the need to pursue—together with the IMF—efforts to increase fiscal space for public infrastructure investments within limits of fiscal prudence and debt sustainability. We also endorse further Bank engagement to meet infrastructure needs at the regional and sub-sovereign levels, enhancing application of risk mitigation instruments, and continuing efforts to offer a more complete and seamless client product line across the World Bank Group; accordingly, we urge the Bank to present options to its Board to move this agenda forward concretely. These actions will be particularly important in enhancing the Bank's support for development in middle-income countries, as well as in low-income countries.

5. These and other actions required to lay the basis for sustained stronger growth are critical to our ability to achieve the MDGs, as is progress in providing effective health systems (in particular tackling HIV/AIDS, malaria and other communicable diseases), education for all and other basic social services. We noted the special needs of low-income countries under stress (LICUS), where technical assistance is especially necessary to strengthen weak policies and institutions. We look forward to reviewing progress in all these areas in the second Global Monitoring Report at our next meeting.
6. We agree that reform efforts in developing countries must be supported by improved aid effectiveness, increased aid and other financial flows, and coherent policies to achieve development results. The international community has agreed to harmonize and align their support behind country-owned development strategies, streamline the use of conditionality, increase the focus on results, and use country systems where appropriate. We are committed to using the Second High-Level Forum on Harmonization in Paris next spring to translate these agreements into clear and specific commitments and timetables and call for the development of indicators and benchmarks to monitor the participation of all partners in this effort at the country level.
7. We must also enhance our efforts to help developing countries build capacity and address absorptive capacity constraints. We welcome the progress achieved to date in implementing the Poverty Reduction Strategy (PRS) process as indicated in recent independent evaluations. We note the important challenges that remain in implementing the approach fully and effectively both at the country level and in the Bank and Fund and among other development partners, and welcome the revisions to the PRS architecture to help achieve this. One area which deserves closer attention in next year's PRS report is the continued efforts by the Bank and Fund to streamline their aggregate conditionality. We also call on the Bank to review its own policy and practice on conditionality and report at our meeting in Fall 2005.

8. The provision of additional, predictable and timely financial assistance to countries committed to sound policies, remains a critical issue, particularly for sub-Saharan Africa. We urge those donors, who have not yet done so, to make concrete efforts towards the target of 0.7 percent of GNP as ODA. We welcome the progress announced by some countries, including, in some cases, the setting of clear timetables to achieve this objective. We also reaffirm our commitment to a substantial and timely replenishment of IDA, recognizing the critical timetable to reach the MDGs.
9. To address the needs for additional stable and predictable financing to help developing countries undertake ambitious investment plans to meet the MDGs and to finance associated recurrent costs where appropriate, we reviewed proposals to complement increased aid flows and commitments with innovative mechanisms. We welcomed the World Bank and IMF analysis of these options, notably the International Finance Facility, global taxes and voluntary contributions, including the analysis of their technical feasibility. We also took note of the international meeting on Action Against Hunger and Poverty convened by President Lula on September 20th 2004 in New York. We ask the Bank and the Fund to continue their work and report at the next meeting on how to take such options forward. We also encourage the Bank to explore the potential for increasing leverage through blending aid with other flows, including MDB lending.
10. Debt sustainability is an essential underpinning for growth. We reviewed progress under the enhanced HIPC Initiative, welcomed the recent decision to extend the sunset clause and urged full creditor participation. We welcome the development of a forward-looking debt sustainability framework that aims to help low-income countries manage their borrowings and avoid a buildup of unsustainable debt, while pursuing the MDGs. We stressed the need to provide resources to low-income countries on appropriate terms, including the degree of concessionality and level of grant financing. We look forward to further work on the remaining issues by the Bank and the Fund to make the framework operational as soon as possible. We underscore the need for joint Bank/Fund Debt Sustainability Analyses (DSAs) (based on a clear division of labor) to provide countries, and their development partners, with clear and coherent analysis and guidance. We also urge the Bank and the Fund to accelerate their work on means to help mitigate the impact of exogenous shocks on low-income countries and to report to their Boards at an early date.

11. We also reviewed reports from our Boards with respect to their work on enhancing the voice and participation of developing and transition countries in our institutions. This work takes place within a broader context of reflections on how best to address governance issues within the international community. We welcomed the progress to date in making Bank and Fund operations more responsive to borrowers' needs. We urge the Boards to cooperate closely together in exploring all relevant options and to strive to achieve consensus amongst all members. We look forward to receiving a report regarding the feasibility of these options, to allow us to address the necessary political decisions at our next meeting.
12. The next meeting of the Committee will be held in Washington, D.C., on April 17, 2005.