Report on Operations Under the Bretton Woods and Related Agreements Act

2005

Canada

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2005

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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 countries and Saudi Arabia. Along with China, India, Italy, Russia 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 World Bank for the year 2005. A final section deals with issues common to both institutions. The annexes contain detailed numerical summaries of the year's activities. The 2005 spring and fall communiqués of the International

[1] In this document "World Bank" and "Bank" refer to the International Bank for Reconstruction and Development and the International Development Association. "World Bank Group" and "Bank Group" refer to the broader group of World Bank institutions that includes the International Finance Corporation, the Multilateral Investment Guarantee Agency and the International Centre for Settlement of Investment Disputes.

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

Benefits of Membership

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.

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 Canada, 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.

Membership allows Canada, in cooperation with its international partners, to play an active role in identifying areas where reforms to the Fund 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.
- Enhancing crisis resolution.
- Improving the effectiveness of IMF lending.
- Safeguarding the IMF's cooperative nature.
- Strengthening support for low-income countries.

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 the capacity of the Fund to manage and resolve financial crises.
- Improving IMF lending to promote economic reform.
- 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 these key areas, and Canada's priorities related to these efforts, are described in more detail in the sections that follow.

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 2005 the total quota for the Fund's 184 members was SDR 213.5 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 emergency assistance for member countries afflicted by natural disasters or recovering from conflict situations.

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 2005 the exchange rate was SDR 1 = C$1.66.

Developments in Emerging Markets

Late in 2005, Brazil and Argentina, two of the IMF's top three debtors (owing US$15.46 billion and US$9.57 billion, respectively, and representing 39 per cent of outstanding credit) announced their intention to fully repay their IMF debt in advance. These repayments were completed as of January 3, 2006.

Brazil's early repayment came in the context of the growing strength of the country's external position, particularly its substantial trade and current account surpluses and strong capital inflows that have greatly boosted reserves and reduced external debt. IMF Managing Director Rodrigo de Rato welcomed the decision, and in a visit to Brazil, he highlighted the close relations between Brazil and the Fund, stating, "Although Brazil is no longer a borrower from the IMF, the Fund will continue to play an important role as adviser, and exchange views with Brazil on global economic issues, where Brazil plays an important role."

The decision made by **Argentina's** authorities reflects their confidence that their external position is sufficiently strong to warrant early repayment. Important challenges and opportunities lie ahead for Argentina, and the Fund intends to maintain a productive relationship with the Government to help Argentina address these challenges.

In May 2005, the IMF signed a three-year, US$10-billion Stand-By Arrangement with **Turkey**, the Fund's largest borrower with 25 per cent of total credit outstanding. The program is designed to help Turkey extend its recent solid economic performance and reduce its vulnerabilities. Although the program went off track early, it is now back on track and Turkish macroeconomic performance in 2005 remained strong. Real gross domestic product (GDP) grew by an estimated 5.0 per cent in 2005, moderating to a more sustainable rate after rapid growth of 8.9 per cent in 2004. The disinflation program has continued to be successful; 2005 year-end inflation declined to 7.7 per cent, beating the IMF-backed 8-per-cent target. For 2006, the central bank has formally adopted inflation targeting; it will aim for 5-per-cent inflation with a plus/minus 2-per-cent band. The current account deficit, however, remains a key concern. In 2005, it continued to widen, increasing to more than 6 per cent of GDP. Although there are signs that the quality of financing is improving, the deficit is still largely funded by sizeable short-term flows. This leaves Turkey's balance of payments exposed to shocks and changes in investor sentiment.

Promoting International Financial Stability

The Fund remains the central institution charged with fostering global financial stability. The mission of the Fund—to promote global prosperity and financial stability—remains as valid today as ever and its four broad lines of activity—surveillance, lending, capacity building, and its work to assist low-income countries—represent the best channels through which it can achieve its objectives. The key challenge for the Fund is now to adapt its surveillance, lending, capacity building and governance structures, to meet the challenges of the 21^{st} century.

In order to continue to effectively and credibly fulfill this obligation, the Fund must adjust to meet the rapidly evolving challenges of the international financial system. Managing Director de Rato, with the support of Canada and other Fund members, has recognized the pressing need for a strategic review of the Fund's direction in order to better focus its efforts on responding to these challenges. At the meeting of the International Monetary and Financial Committee in September 2005, the Fund membership endorsed the broad priorities he set forth in *The Managing Director's Report on the Fund's Medium-Term Strategy* and his suggested priorities for substantive reforms. The following sections discuss some of the work already underway on these priorities.

The IMF's Strategic Review

During his first year as head of the IMF, Managing Director de Rato discussed the Fund's strategic direction with staff, management, the Executive Board, as well as country authorities and outside observers. In September 2005, he set out his views on a vision to guide the day-to-day work and decisions of the Fund. The broad priorities set out in *The Managing Director's Report on the Fund's Medium-Term Strategy* are to:

- Make surveillance more effective.
- Adapt to new challenges and needs in different member countries.
- Help build institutions and capacity.
- Prioritize and reorganize the IMF's work within a prudent medium-term budget.
- Address the issues of fair quotas and voice.

In September 2005, the International Monetary and Financial Committee welcomed these broad priorities. The Fund is now developing specific proposals and timelines on the main tasks to implement substantive reforms in these areas and strategically refashion itself to increase its relevance, effectiveness and legitimacy.

Strengthening Surveillance

Making Surveillance More Focused

Through its surveillance role, the IMF monitors economic and financial developments and policies in individual member countries and globally. Fund surveillance is critical as it can identify emerging problems before they become crises. Improved surveillance by the IMF is central to crisis prevention as it supports member countries and the private sector by making information available for sound economic analysis, including better pricing of risk. This, in turn, leads to more stable capital flows.

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 countries' vulnerability to crisis.

Building on the Fund's 2004 biennial review of the implementation of surveillance, the Fund is now tightening the focus of surveillance, with a sharper focus on its core areas of expertise and on issues of national relevance and systemic importance for global economic and financial stability. A more selective and focused approach should allow the Fund to shape its advice to recognize the constraints and opportunities within countries. Canada supports the Fund taking a longer-term view of specific issues of importance to the global economy. This would further strengthen the Fund's contribution to fostering international financial stability.

Making Surveillance More Effective

Assessment of economic conditions in individual member countries and the global economy is a central pillar of the IMF's mandate and provides the basis for an ongoing economic policy dialogue with national authorities. In addition to the regular (usually annual) Article IV reports on economic developments, policies, and prospects in individual countries, the IMF conducts surveillance of developments in the global economy as a whole. These multilateral surveillance activities, published in the form of the semi-annual *World Economic Outlook* and *Global Financial Stability Report*, allow the Fund to take stock of trends and policy issues that would not be as clear if they were analyzed only at the level of individual countries.

The Fund also works with its members and other international institutions to develop best practices in key areas of policy that can be assessed in the context of its surveillance activities. These initiatives include work on standards and codes, data provision, strengthening financial sectors, and technical assistance. An element of strengthened surveillance is better integrating technical assistance and policy advice into the surveillance process to ensure that members have the expertise and sustained capacity to implement reforms.

IMF Transparency

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 IMF has adopted a series of measures in recent years to improve transparency, including guidelines under which the Fund now publishes most of its policy papers as well as detailed information about its operations and finances. In 2005, Executive Directors reviewed the Fund's transparency policy and recommended measures to maintain the candour of staff advice and expedite the publication of Fund documents. The key initiatives in place to promote IMF transparency 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 website 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 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. A number of countries, including Canada, now release these statements. Canada's most recent mission statement can be found on the IMF website 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 over 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 website so that the views of civil society can be taken into account. As well, more financial information is being released, including the sources of financing for the IMF's lending activities (i.e. it's quarterly financial transactions plan).
- Providing the public with substantially expanded access to the Fund's archival material.

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.

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). In 2005, the Fund Executive Board reviewed the experience to date with both the FSAP and ROSC programs.

In March 2005, the Executive Board reviewed the experience with the FSAP, which remains a cornerstone of financial sector work by the Fund and the World Bank in member countries. About 120 countries, two-thirds of the membership, have participated or requested participation in the program. Feedback from country authorities underscored the usefulness of the program in diagnosing stability and development issues in financial systems and in charting appropriate policy responses.

Executive Directors agreed that the two key features of the program—its joint Bank-Fund character and voluntary nature—should remain unchanged to pool the resources and expertise of the two institutions and to ensure country ownership of the process. They noted that improved prioritization and streamlining have resulted in assessments that are better tailored to country circumstances. They endorsed the definition of the minimum element of an update as comprising an assessment of financial sector developments and progress in implementing earlier FSAP recommendations, and an average frequency of FSAP updates of about five years.

The review also enabled the Fund and the Bank to address member countries' suggestions for further improvement and to enhance the impact of the FSAP process. Some reform directions include: more systematic participation in Article IV consultations by financial sector specialists and more technical support from headquarters; more systematic technical assistance follow-up; and additional research into developmental and stability issues to better underpin policy advice in the financial sector. These reform directions, combined with further proposals from the 2006 reviews of the program by the Fund's Independent Evaluation Office and the Bank's Operations Evaluation Department and from the Fund's own strategic review, are expected to help strengthen the effectiveness of the program further. In this context, Executive Directors agreed to conduct another review on progress made in three years.

In July 2005, the Executive Board considered a joint IMF–World Bank staff paper on the standards and codes initiative, which was launched in 1999 as a prominent component of efforts to strengthen the international financial architecture by promoting greater financial stability, at both the domestic and international levels, through the development, dissemination and adoption of international standards and codes. Executive Directors saw merit in maintaining the initiative, stressing that it has already delivered substantial results and that it is expected to yield further benefits, particularly in assisting members to implement institutional reforms. They generally agreed that the scope of the initiative and its key governance features should be left unchanged at this time.

Executive Directors recommended a number of changes to enhance the initiative's effectiveness. They called for stronger efforts to encourage country participation and supported a more flexible approach for updating reports, which would see an average update frequency of five years, with flexibility in frequency and scope to allow for country-specific circumstances and needs. They also supported measures to strengthen the integration of the initiative with Fund surveillance and provision of technical assistance. In particular, to ensure adequate transfer of knowledge between departments, ROSC teams would identify a list of key recommendations of macroeconomic relevance to be followed up in Article IV consultations, and post-ROSC wrap-up meetings between the ROSC teams and the area departments would take place to discuss the list. In line with the conclusions of the latest biennial review of surveillance, Executive Directors stressed the need to reflect ROSCs' relevant findings in Article IV reports. Directors agreed to conduct another review in three years.

In addition to the ROSC and the FSAP, the IMF is involved in international efforts to combat 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 and undertaken onshore assessments in the context of the FSAP.
- Enhanced its collaboration with the Financial Action Task Force to develop a mutually acceptable global standard on anti-money laundering.
- 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.

IMF members agree 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. 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. Canada is also a major financial contributor to the African technical assistance programs. The IMF opened a fifth regional technical assistance centre, the Middle East Technical Assistance Center, in Beirut, Lebanon, in October 2004.

The IMF's Surveillance of Canada's Performance

Each year, IMF officials hold meetings in Ottawa and selected regions of Canada as part of the Fund's Article IV surveillance activities. In December 2005, it released its preliminary conclusions on the most recent consultation, noting that Canada's macroeconomic performance remains impressive and the economic outlook is favourable. The Fund noted that Canada's fiscal framework continued to deliver an enviable performance relative to other industrial countries, with eight consecutive federal surpluses. In the Fund's view, the key challenge remains to improve the economy's flexibility and to support long-term growth, particularly by building on earlier initiatives aimed at ensuring the sustainability of the public health system, reducing the volatility of equalization payments to the provinces and improving Canada's productivity growth.

Enhancing Crisis Resolution

One of the IMF's primary goals is to reduce the frequency and severity of international financial crises. Despite crisis prevention efforts, financial crises 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.

Better Understanding Capital Account Crises

Today's crises (which often originate in the capital account of the balance of payments) can often be too large for the Fund to respond to merely by providing financial assistance. Improving the Fund's ability to respond to crises also requires it to better understand the dynamics of capital account crises, including the behaviour of private capital markets. The Fund is working to identify the factors that will help countries to regain early and sustained access to international capital markets in a manner that places less emphasis on large-scale assistance. In February 2006, Managing Director de Rato announced proposals to strengthen the Fund's financial and capital market work by creating a new department that will be a centre of excellence for all aspects of financial, capital market, and monetary work in the IMF. The new department will merge the functions and staff of two existing departments: the International Capital Markets Department and the Monetary and Financial Systems Department. This department will continue the Fund's efforts to help countries gain access to international capital markets, an important step in helping the poorest countries make a breakthrough in poverty reduction. The semi-annual *Global Financial Stability Report* will summarize the Fund's research in this area. The Managing Director also announced the establishment of a Financial Sector Steering Committee, which he will chair. This committee will guide the merger, coordinate financial sector work, and ensure Fund management's close attention to financial sector issues. In addition, the Capital Markets Consultative Group will continue to promote a better dialogue between member countries and private investors and creditors.

The IMF's Approach to Capital Account Liberalization

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. In 2005, it assessed the Fund's approach to capital account liberalization. In recent years, the role of the IMF in capital account liberalization has been a topic of major controversy, particularly because this is an area where there is little professional consensus. While the IEO did not find that the Fund exerted significant leverage to push countries to liberalize their capital accounts more quickly than they wanted to, it did find that the risks of liberalization and the policy and institutional responses needed to mitigate them were insufficiently highlighted. The Fund did not translate the risks into operational advice on pace and sequencing of reforms until later in the 1990s. In multilateral surveillance, the Fund focused on the benefits of greater access to capital flows, while paying comparatively less attention to the risks. As a result, the Fund focused on advising recipient countries on how to manage inflows, rather than addressing the supply-side factors in source countries that drive capital flow volatility. The Fund has learned from experience and from the emerging professional literature and adapted its work on capital account issues in response. The IEO recommended that the Fund clarify its approach to capital account issues, including by sharpening its advice based on particular risks facing specific countries, and pay greater attention to the supply-side factors of international capital flows.

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 allowed under normal IMF lending rules) for countries that face financial crises. These were reviewed in April 2005 and Directors agreed that there was no strong basis for changing the existing framework. 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 higher level of debt remains 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.
- 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.
- Requiring *ex post* evaluation of programs of exceptional access.

Promoting the Adoption of Collective Action Clauses and Assessing Voluntary Codes of Conduct

The Fund is also exploring options that governments and the private sector could adopt to help resolve problems such as sovereign debt issues without financial assistance from the Fund. 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 occurring in such a way that the majority decision is binding on all creditors. Significant progress has been made in this area, with most emerging market borrowers adopting collective action clauses in their recent bond issues. In 2002, only about 30 per cent of outstanding emerging market bonds included collective action clauses. By the middle of 2005, over 50 per cent of emerging market bonds in circulation included such clauses. The widespread adoption of collective action clauses in sovereign bond contracts is an important development in promoting the orderly resolution of financial crises.

The private sector and a group of emerging market economies have also 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. In addition, the IMF is 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 of expertise, 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.

Promoting Policy Improvements in Member Countries

The Fund has recognized the importance of good governance as an element of a country's successful transition from Fund programming. Canada supports this emphasis and believes that sensible policy choices are essential to a country's economic performance and to its citizens' well-being. This was reflected in Canada's strong support for the Fund's efforts to persuade Zimbabwe to change its policy stance. Since 2001, the Government of Zimbabwe has been unwilling to cooperate with the Fund or the international community to improve its policies. In the summer of 2005, the Government launched "Operation Restore Order," which the United Nations estimates has cost 700,000 Zimbabweans their homes or jobs or both, with a further 2.4 million affected to varying degrees. Canada expressed dismay at this disregard for the most basic rights and dignity of the Zimbabwean people. During this period, the Government of Zimbabwe also went into arrears with the Fund, a dereliction of its obligations as a member that could have led to its expulsion from the Fund. Canada's concern over Zimbabwe's poor governance culminated in our Executive Director's strong support for the IMF to proceed with the country's compulsory withdrawal from the Fund. While Zimbabwe is now paying its arrears, removing the immediate prospect of expulsion, Canada continues to press Zimbabwe to improve its social and economic policies.

In 2005, Directors reviewed the experience with the new guidelines and concluded that substantial progress has been made in aligning practice with the new guidelines, but that room for improvement remains. In particular, conditionality is now more focused on issues critical to the success of Fund programs, clarity on the conditions included in programs has increased and collaboration with the World Bank is improving. Improvements could be made in program implementation and country ownership. To foster ownership, Directors encouraged staff to work with authorities to establish a common understanding of the nature of the problems facing the country and to develop alternative policy options.

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.

The Fund measures the adequacy of its resources through its forward commitment capacity. This represents 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 2005, the IMF's one-year forward commitment capacity amounted to SDR 106 billion (US$153 billion). With the repayment of outstanding credit by Brazil and Argentina in early 2006, this capacity has increased significantly beyond this level.

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 to 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. While the Fund has sufficient resources to meet projected needs and no general increase in quotas is required, a redistribution of quotas and voting power to those rapidly growing economies, largely in Asia, whose quotas have not kept pace with their greater role in the global economy would further strengthen the legitimacy of the Fund's governance arrangements. At the September 2005 meeting of the International Monetary and Financial Committee, Canada's Finance Minister stressed the need for the IMF to move forward on quota reform. The Committee asked the Fund to continue its consideration of issues of quotas and voting power, and asked for a progress report for its meeting in April 2006.

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. Canada supports efforts by the Fund to strengthen the linkage between its strategies and its administrative budget. The Executive Board has endorsed a new approach to enhance the budget's strategic focus and better support priority setting. For new initiatives, the Fund will seek the required resources through reallocation or from efficiency savings. A new medium-term budget framework will set out the overall resource envelope and allocate resources for desired 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 is underway and will be completed before the end of the Fund's fiscal year.

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 website 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 nationally owned Poverty Reduction Strategy Papers prepared by borrowing countries, and are based on a process involving the participation of civil society, non-governmental organizations, donors and international institutions.

In September 2005, the International Monetary and Financial Committee declared its support for the proposal to provide 100 per cent cancellation of debts owed by heavily indebted poor countries to the IMF, the World Bank's International Development Association and the African Development Fund. This will provide significant additional resources to help these countries reach the Millennium Development Goals and reinforce their longer-term debt sustainability. The Committee welcomed an approach that respects the Fund's principle of uniformity of treatment, recognizes the importance of maintaining the IMF's capacity to provide financing to low-income countries, and acknowledges that countries benefiting from irrevocable debt relief should have demonstrated sound policies and high standards of governance. This Multilateral Debt Relief Initiative is examined further in the "Joint Issues" section of this report.

The IMF reacted quickly to the Asian tsunami disaster of December 2004. Drawing on its expertise, the IMF immediately 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 also committed to provide financial assistance, primarily through an emergency assistance facility, which can quickly make sizeable funds available 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 funds to be provided under this facility to low-income countries at a subsidized interest rate, with the subsidy element financed through donor resources. Canada contributed $5 million to this effort. In 2005, this facility provided emergency assistance to the Maldives and Sri Lanka to assist their recovery from the tsunami.

Policy Support Instrument

The IMF has been working on new instruments to strengthen its support to low-income countries. At the September 2005 meeting of the International Monetary and Financial Committee, Governors endorsed the Policy Support Instrument (PSI). Based on a policy initiative put forward by the Canadian Executive Director, this non-lending instrument will be available to members that do not need, or want, IMF financial assistance, but voluntarily request IMF endorsement and continued assessment of their policies as meeting the standard for accessing Fund financing. The country-owned policy frameworks designed by the authorities would consolidate medium-term macroeconomic and financial stability, and deepen reforms in support of poverty reduction and economic growth. The PSI will be particularly useful to countries with strong macroeconomic foundations that nonetheless continue to depend on other donors for development financing or that are in transition to market-based financing. It will also help eliminate the need for countries to borrow from the Fund merely to demonstrate their commitment to the sound policies needed to unlock Paris Club debt rescheduling or cancellation.

Nigeria and the PSI

In 2005, Nigeria became the first country to use the PSI. The Executive Board of the Fund approved a PSI for Nigeria on October 17, 2005. The Paris Club agreed to accept this as adequate demonstration of Nigeria's commitment to sound economic policies. Consequently, Paris Club creditors agreed to allow a debt cancellation estimated at US$18 billion on October 20, 2005, representing an overall cancellation of about 60 per cent of Nigeria's debt to the Paris Club, in exchange for payments of US$12.6 billion to Paris Club creditors over the next six months. This cancellation would be phased with IMF reviews under the PSI. This innovative treatment of Nigeria's debt offered advantages to Nigeria and Paris Club creditors.

Exogenous Shocks Facility

A new facility in the PRGF Trust will also be available to complement existing instruments by providing timely concessional support to low-income members (outside of regular PRGF arrangements) and that are facing exogenous shocks. Following the October 2004 Development Committee request for the Bank and the Fund to accelerate their work on means to help mitigate the impact of exogenous shocks on low-income countries, the Fund staff recommended modifications to the PRGF Trust in July 2005 to create an Exogenous Shocks Facility (ESF) within the PRGF. Because shocks, such as spikes in energy prices or natural disasters, can have significant negative economic impacts on low-income countries, especially those whose economies lack diversification and have limited capacity to build up reserves, IMF members agreed the Fund could usefully supplement national efforts to reduce vulnerability to shocks. The ESF will provide temporary external financing for low-income countries qualifying for the PRGF that experience a sudden and exogenous shock. In September 2005, the Group of Eight (G8) called for the immediate establishment of the ESF as recommended by the IMF. Canada, like other G8 countries, supported the creation of this facility to supplement debt relief under the PRGF. The ESF structure was formally established within the PRGF in December 2005 and several countries have already indicated their intention to finance the ESF, which will begin operation once sufficient financing has been provided.

Lending Developments in 2005

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 2005, the IMF had lending arrangements worth SDR 21.7 billion in place for 44 member countries (see Annex 1). This represented a sharp decline from the SDR 58.7 billion outstanding a year earlier, reflecting in large part the decisions by Brazil and Argentina—the two countries with the largest outstanding IMF credit—to repay their outstanding drawings. The IMF approved a total of 6 new Stand-By Arrangements in 2005, bringing the number of current Stand-By Arrangements to 12. Of these, 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 in post-conflict situations. In 2005, SDR 130 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 (January 1 to December 31)

	2004	2005
	(in SDR billions)	
Total purchases	5.0	2.70
Of which:		
Stand-By Arrangements	3.7	2.04
Post-conflict/natural disaster	0.3	0.13
Extended Fund Facility	0.2	0.13
Poverty Reduction and Growth Facility	0.8	0.40
Total repurchases	14.7	30.10
Net purchases	- 9.7	-27.40

Lending decreased under the IMF’s concessional facility, the Poverty Reduction and Growth Facility (PRGF). About 75 per cent of PRGF-eligible countries had PRGF arrangements in 2005, with eight new arrangements approved during the year.

Managing Canada's Interests

The Honourable James Michael Flaherty, Minister of Finance, is Canada's Governor to 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 statement at the IMF and World Bank annual meetings, and periodic meetings with the Managing Director of the Fund. The Minister's statements are available on the Department of Finance Canada website at www.fin.gc.ca. The Governor of the Bank of Canada is Canada's Alternate Governor of the IMF.

The ongoing management of Canada's interests at the IMF is the responsibility of the Executive Director. Canada's representative on the Executive Board was Kevin G. Lynch until March 5, 2006. Elected in October 2004 by constituency Governors, Mr. Lynch was one of 24 Executive Directors. In addition to Canada, he represents 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 Canada 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 Canada, 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 non-governmental organizations.

Parliament is informed of the activities and operations of the Bretton Woods institutions through the tabling of this 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. Canada supported all issues brought forward in 2005 for votes by Executive Directors and Governors.

Canadian Executive Director's Office

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	Peter Charleton (Ireland)
Senior Advisor	Paul Jenkins (Canada)
Senior Advisor	Richard Campbell (Caribbean)
Senior Advisor	Mark Kruger (Canada)
Advisor	Shawn Ladd (Canada)
Advisor	Yvette Alvarez (Belize)
Administrative Assistant	Catherine Byrne (Ireland)
Administrative Assistant	Liz Craib (Canada)
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* Kevin G. Lynch was Executive Director until March 5, 2006, and became Clerck of the Privy Council on March 6, 2006. Jonathan T. Fried was elected Executive Director on April 7, 2006

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 non-Canadian-dollar amounts are also 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 Government of Canada.

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 by other member countries. In 2005, Canada received SDR 15.1 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 our foreign exchange reserves.

Table 2
Canada's Financial Position in the IMF

	December 31, 2005	December 31, 2004
	(in SDR millions)	
Quota	6,369.2	6,369.2
Fund holdings of Canadian dollars	5,388.9*	4,219.6*
Reserve position in the Fund	980.3**	2,149.6**

* 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 2005, Canada's holdings of SDRs amounted to SDR 627.6 million, or 80.5 per cent of Canada's cumulative allocation of SDRs. In 2005, Canada held SDRs in an amount below its allocation, and so paid net interest of SDR 4.2 million.[3]

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

In 2005, 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 2005, Canada had extended the full amount of SDR 700 million in loan payments under these arrangements, and subsidy contributions equalled SDR 188.4 million of the SDR 190 million. In 2005, Canada received SDR 9.7 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 used in 2005. Canada is also a participant in the General Arrangements to Borrow (GAB), an earlier credit arrangement established by the Group of Ten. Canada's GAB commitment is the equivalent of SDR 892.5 million. This line of credit was not used in 2005.

New Arrangements to Borrow

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

- Participating countries will make loans to the IMF when supplementary resources are needed to forestall or cope with an impairment of the international monetary system, or deal with an exceptional situation that poses a threat to the stability of the system.
- Twenty-five countries have agreed to lend up to SDR 34 billion (about C$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 within the international financial system should 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 and to adapt its governance to reflect changes in the world economy. To meet these challenges:

- The Fund should continue to strengthen its surveillance role to ensure that its advice addresses the most pressing challenges confronting its members and forms an integral part of the debate over policy responses. This should include advice on appropriate exchange rate arrangements in member countries.
- The Fund should implement the strategic direction outlined in *The Managing Director's Report on the Fund's Medium-Term Strategy* and endorsed by its membership to enhance the effectiveness of its role in the international economic system over the medium and longer term. This includes working to ensure that its management practices support its objectives and that it has the necessary tools to fulfill its mandate.
- The Fund needs to enhance it's capacity to prevent and resolve international financial crises.
- The Fund will also need to consider how best to support its policy responsibilities in the face of a reduced income stream as middle-income countries repay their loans and lower-income countries adopt non-borrowing Policy Support Instrument programs.

World Bank

Benefits of Membership

Membership in the World Bank (the Bank) affords Canada an important voice on key development issues in the world's premier multilateral development institution. In addition, it provides a key forum for policy advice and financial support crucial to improving borrowing members' longer-term development and poverty reduction prospects, including the achievement of the Millennium Development Goals. It also assists members by providing concessional loans and grants and by improving access of developing and transition countries to world financial markets.

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 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 implementation of the Heavily Indebted Poor Countries Initiative and Multilateral Debt Relief Initiative, in shaping the institution's response to post-conflict countries, as well as 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 development results. 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, the Bank provides substantial procurement opportunities for Canadian companies and individuals. In FY 2005, Canadian firms were awarded contracts worth more than US$90 million under Bank-financed contracts associated with investment lending.

Overview

In FY 2005, the Bank committed loans, grants and credits of US$22.3 billion to 103 developing and transition countries (see Annex 2). The International Bank for Reconstruction and Development (IBRD) committed US$13.6 billion in new loans in FY 2005, up substantially from US$11.0 billion in FY 2004. The Bank provided concessional loans and grants through the International Development Association (IDA) valued at US$8.7 billion in FY 2005, or roughly US$400 million less than recorded in FY 2004.

Geographic and Sectoral Focus of Lending

Reflecting significant adjustment lending to large South American emerging market borrowers, new IBRD lending commitments in FY 2005 were highest in the Latin America and Caribbean region, which accounted for 37 per cent of all IBRD lending. The Europe and Central Asia region had the next highest lending share at 26 per cent. Lending to the South Asia region, at 15 per cent, increased dramatically over FY 2004 largely due to the IBRD's response to the tsunami and the flooding in Bangladesh. Lending to the East Asia and Pacific region held reasonably stable at 13 per cent, and the Middle East and North Africa region at 9 per cent. Given its non-concessional lending terms, the IBRD is not a major lender to African countries.

In FY 2005, Africa accounted for 45 per cent 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 and Pacific region and Europe and Central Asia region accounted for 12 per cent and 6 per cent respectively. Latin America and the Caribbean accounted for 3 per cent of IDA lending.

The Bank's strong commitment to investing in people is reflected in the sectoral breakdown of both IBRD and IDA operations. Support for social sector investments, in particular, remains a high priority. The areas of social protection, social development and human development accounted for 30 per cent of total World Bank commitments in FY 2005. Approximately 27 per cent of IBRD commitments and 32 per cent of IDA commitments supported investments in the education, health and other social services, and water, sanitation and flood protection sectors. There is also a renewed emphasis on growth, including infrastructure, agriculture and rural development.

Non-Lending Operations

In FY 2005, 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, analytic, 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 five complementary but distinct entities: the International Bank for Reconstruction and Development (IBRD), the International Development Association (IDA), the International Finance Corporation (IFC), the Multilateral Investment Guarantee Agency (MIGA) and the International Centre for Settlement of Investment Disputes (ICSID).

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 and grants to the poorest borrowers. 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 2005, outstanding IBRD loans and IDA credits amounted to US$104.4 billion and US$120.9 billion respectively.

The IFC supplements the activities of the IBRD and IDA by undertaking investments on commercial terms in productive private sector enterprises in developing countries. The IFC provides services such as direct private sector loans, equity investments, resource mobilization and technical assistance. As of June 2005, the total committed loan and equity portfolio was equivalent to US$24.6 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 2005 amounted to US$5.1 billion. ICSID provides facilities for the conciliation and arbitration of investment disputes between firms from member countries and investors. Canada is not currently a member of ICSID.

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. A number of Executive Directors from developed countries represent constituencies with borrowing country members. The voting power of each Executive Director is based on the shareholding they represent. The five largest shareholders, France, Germany, Japan, the United Kingdom and the United States, appoint an Executive Director, while other countries are represented in constituencies. Canada leads a constituency shared with Ireland and the Commonwealth Caribbean countries.

Strengthening the Effectiveness of Poverty Reduction

The Bank has sharpened its support for the development agenda through a two-pillar strategy for reducing poverty that is based on building the climate for investment, jobs and sustainable growth, and on investing in poor people and empowering them to participate in development. In FY 2005, the Bank's work remained closely aligned with this framework. The Bank recognized the need for it to intensify its efforts in implementing the framework by sharpening the tools and procedures for meeting the development challenges set forth in the Millennium Development Goals. Executive Directors reviewed a number of progress reports on ongoing efforts at harmonizing operational policies, procedures and practices among donors; on increasing the effectiveness of programs such as the poverty reduction strategies and Bank conditionality; on meeting the needs of low-income countries, including heavily indebted poor countries and low-income countries under stress; and on strengthening partnerships with middle-income countries.

Focusing Operations on the Millennium Development Goals

The recognition that achievement of the Millennium Development Goals (MDGs) depends heavily on 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 (UN) system and the Development Assistance Committee of the Organisation for Economic Co-operation and Development in strengthening international monitoring of the progress being made towards achieving the MDGs. To date, progress has been mixed, with the overarching poverty goal being met globally (due to progress in India and China), but with many other goals (e.g. health, gender equality in education, environment) unlikely to be met either globally or on a country basis. Without further progress, achieving the MDGs will be seriously jeopardized—especially in Sub-Saharan Africa, which is off track on all the MDGs.

A key task for the Bank in the monitoring exercise is to develop a framework for benchmarking performance among developing countries, donor agencies and multilateral institutions. 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 Bank's Development Gateway website (www.developmentgateway.org). As national capacity in gathering and assessing statistics is critical to efforts for monitoring progress towards the MDGs, the Bank has developed and begun 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 8 Millennium Development Goals and 18 associated targets in the September 2001 report of the UN Secretary General as part of a road map to implement 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.
- To develop a global partnership for development including through trade openness and debt relief.

At the request of the Development Committee, the World Bank has also been working closely with the UN—which has the lead responsibility for tracking progress towards the MDGs—and the IMF to develop a framework to monitor the implementation of policies that are necessary to promote the attainment of the MDGs and, on this basis, to produce the annual *Global Monitoring Report* (GMR). This 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 Development Committee discussed the second GMR in April 2005. The report put forward a five-point agenda for accelerating progress towards the MDGs: (1) anchoring actions to achieve the MDGs in country-led development strategies; (2) improving the environment for stronger, private-sector-led economic growth; (3) scaling up delivery of human development services (health, education); (4) dismantling barriers to trade; and (5) substantially increasing the level and effectiveness of Official Development Assistance.

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 to countries demonstrating strong commitment to good governance and improving social sector programs.

Economic Prospects for Developing Countries

Real gross domestic product (GDP) in developing countries is estimated to have grown by 6.4 per cent in 2005, down from 7.3 per cent in 2004, reflecting the impact of oil and other commodity price changes, exposure to global manufacturing and trade, as well as country-specific factors. Economic prospects, however, vary substantially both across and within regions. In 2006, growth is expected to decline slightly.

Following solid growth of 5.6 per cent in 2004, real GDP growth in **Latin America** is expected to have moderated to 4.1 per cent in 2005. Strong export growth and improved macroeconomic policy performance should help to sustain growth going forward, while widespread pre-financing of future debt repayments will help reduce the risk of financial market volatility in response to current political uncertainties and forthcoming elections. Moreover, strong oil production and prices have continued to support growth.

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 9.0 per cent in China. In **South Asia**, prospects remain solid, with growth in India and Pakistan estimated at 7.1 and 7.4 per cent, respectively.

The December 26, 2004, tsunami had minimal lasting economic impact on the hardest-hit countries of Indonesia, Sri Lanka, Maldives and India.[4] Part of the reason for this was the fact that damage generally did not occur in key economic centres. Furthermore, governments of the affected countries received a substantial amount of aid for rebuilding. Recovery is well underway in most affected areas, with the exception of the Aceh province of Indonesia, where many continue to be out of work. Growth in **Africa** is expected to have slowed to 4.5 per cent in 2005, following the 5.3-per-cent expansion in 2004. The economies in the region have been supported by strong global demand, improved domestic macroeconomic policies, progress on structural reforms and fewer armed conflicts. However, growth continues to be lower than the 7-per-cent annual growth necessary to achieve the MDGs.

[4] Economic disruption in the less severely hit countries of Thailand, Malaysia, Bangladesh, Somalia, Kenya and Tanzania was negligible. Seychelles was moderately affected.

Natural Disasters

Disaster mitigation is at the core of the Bank's mission of fighting poverty. Since its establishment, the Bank has been a leader in providing post-disaster recovery and reconstruction assistance. The Bank also leads with efforts to promote more effective disaster risk management, including through training and technical assistance.

The Bank has been promoting a comprehensive risk management framework. This framework includes developing a better understanding of the risks facing a country and the scale of potential losses, taking steps to mitigate the potential effects of disasters, and examining the potential to use existing lending products more creatively to support *ex ante* recovery financing mechanisms.

Over the past year, the Bank has been active in supporting countries affected by natural disasters, including those countries affected by the Asian tsunami and the South Asian earthquake.

In the aftermath of the Asian tsunami, the Bank, in collaboration with the Asian Development Bank, the Japan Bank for International Cooperation and the United Nations, helped to prepare assessments of damage and reconstruction needs and provide substantial analytic and advisory support for preparation of reconstruction and recovery programs. In addition, the Bank provided emergency support of US$14 million to the Maldives, US$150 million to Sri Lanka and US$528.5 million to India.

Likewise, in the aftermath of the South Asian earthquake that devastated parts of Pakistan, the Bank helped to prepare assessments of damage and reconstruction needs in cooperation with the Asian Development Bank and the United Nations. The Bank has pledged to provide Pakistan with US$1 billion in support to assist with earthquake recovery and reconstruction.

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. PRSPs are increasingly becoming the focus of donor coordination, with the Bank's Country Assistance Strategies based on the country's own PRS framework.

Currently, 49 countries have prepared national poverty reduction strategies. Just over half of these are in Sub-Saharan Africa, and a similar proportion are heavily indebted poor countries.

[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.

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 FY 2005, the World Bank and IMF undertook a comprehensive review of the PRSP process. Findings of this review call for attention in two areas to enhance the effectiveness of the PRS approach. First, to reinforce mutual accountability for development results, the PRS approach needs to support a balance in accountabilities between governments (to their constituents for improved policies, governance and development results) and donors (to provide more and better aid in ways that support rather than detract from domestic accountability). Second, the PRS approach needs to provide a platform for scaling up aid and demonstrating tangible results at the country level.

Conditionality Review

In FY 2005, the Bank undertook a comprehensive review of the policy and practice of conditionality in World Bank development policy lending. This stock taking was of critical importance in the Bank's effort to scale up its contributions to the achievement of the MDGs, as well as its commitment to harmonize approaches with partners.

The survey of clients and stakeholder consultations provided useful insights into areas of strength (economic management, human development, financial and private sector development) and areas of weakness (rule of law and rural development). The external consultations indicated that most of the Bank's policy operations are well aligned to recipients' medium- and long-term strategies, and have a positive impact on the countries' development. However, several areas requiring further attention were identified. These include the Bank's investment/business climate work and its impact on poverty reduction and environmental sustainability. The consultations also underscored the need to improve strategic communications and transparency in order to enhance public understanding of the Bank's role.

Trends in World Bank Conditionality

Policy-based conditionality linking the release of funds to the implementation of a desired action or policy is a central element in the aid relationship between international financial institutions and recipient countries. The Bank increasingly made use of such conditionality with the introduction of policy-based lending in the 1980s.

The Bank conditions disbursements on positive assessments in three areas: critical program conditions, adequacy of the macroeconomic framework and satisfactory program implementation. There are conditions and benchmarks in these three areas. Conditions are policy actions that are deemed critical for achieving the intended outcomes of the program and that are required in the legal agreement in order to disburse a loan, credit or grant. Benchmarks are essentially milestones that can be either actions or outcomes expected to be achieved over the period of the program. Benchmarks, used more in the context of IDA programs, are not legal conditions for disbursements of Bank loans or grants and cannot hold up Bank disbursements if not carried out. Typically, conditions focus on policy design, decision, implementation, outcomes and the macroeconomic policy framework.

The use of conditions in policy-based lending has declined over the past decade from 33 conditions on average in FY 1995 loans to 12 conditions on average in FY 2005 loans. The use of benchmarks increased from 14 on average in FY 1995 to 23 in FY 2005. As well, there has been a shift in the focus of conditionality from short-term economic adjustment (including privatization) to medium-term public governance and social sector reforms.

Low-Income Countries Under Stress

More than one-third of the Bank's borrowers are affected by conflict. The World Bank has taken a leading role in helping these countries to strengthen their capacity to use international assistance effectively to meet immediate needs, rebuild essential services and provide security. The Bank increasingly uses tools sensitive to conflict situations in its operational work, with 15 countries using conflict analysis frameworks and completing post-conflict needs assessments and recovery plans. The poorest conflict-affected countries are supported through the Low-Income Countries Under Stress (LICUS) Initiative. The LICUS Initiative is the World Bank's response to improving development aid effectiveness in fragile states.

Work continued this year on increasing the effectiveness of aid, with the Bank providing oversight of progress in the 25 fragile states. To improve links between security and development, the Bank and the United Nations Development Group developed the Transitional Results Matrix, a planning tool that helps countries prioritize and enhance the coherence of international support across the economic, development, humanitarian, political and security arenas.

In FY 2005, the Bank implemented several institutional reforms to improve its response in LICUS. The Country Policy and Institutional Assessment (CPIA) system was amended to recognize performance improvements in these countries. Also, since its inception in 2003, the LICUS Trust Fund has committed $23.8 million to support the re-engagement of the most fragile countries in non-accrual status with the Bank. In January 2006, the Bank presented a LICUS update paper showing that renewed international attention, along with increased institutional efforts within the Bank, is starting to show signs of impact on the ground. CPIA ratings have improved more strongly in LICUS than in other countries, and the percentage of the Bank's commitments and projects at risk has declined. However, challenges remain to (1) strengthen country strategies and operational engagement; (2) share best practices between regions and country teams with a focus on effectively linking Bank activities to peace-building and state-building goals; (3) strengthen international partnerships; and (4) strengthen organizational support and staffing systems to ensure that new approaches and partnerships can be implemented.

Middle-Income Countries

The World Bank has a key role to play in the development of middle-income countries (MICs), home to 70 per cent of the world's poor. In FY 2005, Bank lending to MICs declined to roughly US$13 billion. This marks the continuation of a downward trend that has resulted in a more than a 25-per-cent decrease in MIC lending over the past decade. This decline in demand for IBRD financing is a measure of success in the development process. However, there is concern that overly complex Bank procedures may have created an incentive for some countries to explore other sources of financing.

To support the development efforts of MICs, the Bank began implementing an action plan in FY 2005 designed to strengthen the ability of its staff to respond to these countries' borrowing needs. Initiatives include piloting the use of countries' own environmental and social safeguards and fiduciary systems, where applicable; streamlining policy conditionality; and making greater use of the flexibility of Country Assistance Strategies (CASs) to customize support to country circumstances, respond quickly to emerging opportunities, and realign investment lending instruments and disbursement mechanisms with the evolving needs of clients.

Monitoring and Evaluation

The Bank continues to adjust its system of project monitoring and evaluation. 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 Poverty Reduction Strategy Papers 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" CAS pilots. An assessment of the lessons learned from these pilots is now underway, and the results will inform how to mainstream results into all future CASs. Going forward, the Bank will monitor the poorest countries' progress towards reaching the Millennium Development Goals and its own contribution to this progress.

Enhancing Development Effectiveness Through Evaluation

The Independent Evaluation Group

The Independent Evaluation Group (IEG), formerly the Operations Evaluation Department, is an independent unit within the World Bank; it reports directly to the Bank's Board of Executive Directors. IEG assesses what works and what does not; how a borrower plans to run and maintain a project; and the lasting contribution of the Bank to a country's overall development. The goals of evaluation are to learn from experience, to provide an objective basis for assessing the results of the Bank's work and to provide accountability in the achievement of its objectives. It also improves Bank work by identifying and disseminating the lessons learned from experience and by framing recommendations drawn from evaluation findings.

Quality Assurance Group

The Quality Assurance Group (QAG) is an internal unit reporting to Bank management. QAG's primary objective is to promote excellence in Bank performance by increasing accountability and enhancing learning. QAG's strategy for achieving its objective involves two complementary approaches: first, providing staff and managers with credible, real-time feedback on operational performance and identifying, in a transparent fashion, systemic issues affecting operational performance; second, identifying and highlighting skills and resources needed by the operational staff for high-quality work and using lessons learned to support staff training.

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 policies, programs and individual projects. 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 Fighting Disease

HIV/AIDS

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. 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 all, the Bank has committed more than $2.5 billion to fighting HIV/AIDS in 67 countries. 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 Group of Eight (G8) 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.

Malaria

Every year, more than 500 million people contract malaria, and 1.1 million die from the disease. Recognizing that progress in fighting malaria has been too slow and uneven, the World Bank announced a new Booster Program for Malaria Control in April 2005. The program will make funding available to countries to enhance programs to combat the disease. A commitment of US$500 million to US$1 billion is planned over the next five years.

Avian and Human Influenza

In January 2006, the World Bank co-sponsored the International Pledging Conference on Avian and Human Influenza in Beijing, which successfully mobilized pledges of US$1.9 billion against this potential pandemic. The Bank pledged US$500 million in loans, grants and credits that will be used to support country-specific initiatives and possibly leverage additional funds from other countries.

IDA14 Replenishment

Negotiations on the volume of financing and operational priorities for the 14th replenishment of IDA (IDA14) began in February 2004. In early 2005, 40 donor governments, with strong participation from borrower representatives, concluded negotiations on IDA14. The IDA14 period runs from July 2005 to June 2008. The IDA Deputies' Report, which serves as the IDA14 policy framework, was approved by Bank Governors in April 2005 and is available on the Bank's website.

Donors substantially increased funding for IDA to ensure its strong participation in the international effort to scale up poverty reduction efforts to reach the Millennium Development Goals. Total IDA14 donor contributions reached SDR 12,062.64 million, and Canada has maintained its 3.75-per-cent donor share with a commitment of SDR 534.4 million (C$1,043.25 million) during the IDA14 period.

IDA's operational priorities include:

- Significantly increase grant resources available to recipients from 18 to 21 per cent of IDA13 to 30 per cent of IDA14.
- Adopt a grant allocation framework based on debt sustainability and Country Policy and Institutional Assessment ratings to ensure that additional resources are effectively targeted within a performance-based allocation framework.
- Link its operations more closely to country-owned poverty reduction strategies.
- Invest in people, especially through education, health and basic infrastructure, to promote growth through private sector development, and to monitor measurable results.
- Maintain the objective of having Africa account for half of IDA allocations.
- Recognize the debt vulnerability of many low-income countries, in IDA14 donors agreed to link the provision of grants to debt distress.
- Be more selective in its operations and to work closely with other development partners, on the basis of comparative advantage.
- Recognize the importance of IDA's performance-based allocation mechanism, and especially the high weight it assigns to governance.
- Show greater flexibility with respect to allocations to post-conflict countries without policy track records and to vulnerable countries such as Haiti.

Other Priority Issues

Canada's positions are based on our international development goals, foreign policy priorities and 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 countries 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, the strengthening of 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.

Infrastructure Action Plan

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, energy, roads and other aspects of transport, and access to modern information communications technology. The overarching premise of the 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. Significant progress was made in FY 2005 toward implementing the Infrastructure Action Plan. Infrastructure lending grew from $5.4 billion in FY 2003 to $6.5 billion in FY 2004 to $7.3 billion in FY 2005—about a third of total lending commitments. Transportation projects received the largest share of commitments, followed by energy and mining, water supply and sanitation and information and communications technologies. The Bank is making substantial investments in new areas. Together with the IFC, it is exploring opportunities for engaging with clients more effectively at the subnational level through the Municipal Fund pilot program. It is also partnering with the IMF to find ways to address the lack of adequate fiscal resources for infrastructure investment once ongoing expenditure commitments in country budgets are met. The Bank will continue to engage other development partners, including the private sector, in this work.

Poverty Reduction and Sub-Saharan Africa

Canada is a leading advocate for poverty reduction and development in Africa, home to some of the poorest countries in the world. In 2005, Canada channelled much of its support through several initiatives:

- **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 Initiative, Canada supported the provision of grant financing to countries experiencing debt distress.
- **Africa Action Plan:** In September 2005, the World Bank developed its Africa Action Plan, which addresses the G8 Leaders' call at the Gleneagles Summit for better international coordination and increased assistance to African countries in order for them to meet the Millennium Development Goals by 2015. Notably, the Africa Action Plan aims to support country-led efforts to achieve results, advance a shared growth agenda, build more capable states, and encourage partnerships for Africa at the country, regional and global levels.
- **Canadian initiatives:** In its 2005 budget, Canada announced that it would double aid levels to Africa between 2003–04 and 2008–09 from $1.05 billion to $2.1 billion. Spending priorities will include health initiatives to prevent and treat diseases such as HIV/AIDS, malaria and polio, and provide debt relief for heavily indebted African countries.

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 2005, the Canadian Executive Director opposed an IFC investment in Tata Iron and Steel Company Limited, in light of concerns about global overcapacity in the steel market. He also abstained from voting on the IFC's investment in Embraer-Empresa Brasileira de Aeronautica S.A. based on lack of evidence of additionality.

Education

Canada considers education to be a critical factor in development and supports recent efforts by the Bank to increase support to this sector as part of the global Education for All (EFA) framework. Commitments to education in FY 2005 amounted to US$1.95 billion. The Bank also provides important non-lending support for education through its analytic and advisory work. Globally, the EFA Fast-Track Initiative (FTI)—developed by the Bank in cooperation with a special G8 Education Task Force in 2002—has become the key vehicle to drive donor cooperation and progress on the EFA and Millenium Development Goal (MDG) of universal completion of primary school. To date, through our bilateral programs, Canada has pledged C$135 million from 2003 to 2008 for FTI proposals from Honduras, Mozambique and Tanzania, over and above current commitments. In addition, in 2005 the Canadian International Development Agency made a new commitment of $16 million in Nicaragua and also supported education programming in other FTI countries such as Burkina Faso, Niger and Vietnam.

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 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.
- 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. Currently, there are 18 countries with appraised and endorsed education country plans as part of the FTI. It is expected that another 28 countries could become eligible for the FTI between 2006 and 2008 (including 14 Sub-Saharan African countries), each having developed sound plans for scaled-up investment in basic education consistent with the agreed-upon FTI framework and criteria. Estimates of external donor financing for all developing countries to achieve universal primary education by 2015 range from between US$5.6 billion and US$10 billion annually. At present, donor assistance for basic education amounts to approximately US$2 billion per year, of which Canada contributes roughly 7 per cent.

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, coordination and harmonization among development partners, responsiveness to client country needs 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 outcome indicators on poverty and the MDG 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 2004, the Operations Evaluation Department estimated that 82 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. Nonetheless, in a report on the Bank's effectiveness released in October 2005, the new Independent Evaluation Group suggested that approximately one-third of Bank country programs were rated unsatisfactory. Countries expressed a desire for the Bank to provide "less generic knowledge and more help in finding solutions to their specific problems." At the same time, the Bank's strategy for global programs was described as "poorly defined." The new Strategy for Global Programs and Partnerships (GPP) adopted in May 2005, in conjunction with the new allocation framework for the Development Grant Facility, provides a basis for the Bank to enhance the linkage of GPPs to its country strategies to increase the impact of its programs. At the IFC, progress continues to be made on tracking and measuring development effectiveness of IFC investments and technical assistance.

Coordination and harmonization of donor programs is another critical element of effective development assistance. In February 2003 in Rome, the World Bank, together with other multilateral development banks and the Development Assistance Committee of the Organisation for Economic Co-operation and Development, co-sponsored an international High-Level Forum on Harmonization, which resulted in the Rome Declaration on Harmonization. The Declaration set 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 promoted country-led efforts to streamline donor procedures and practices, and urged the adoption of policies, procedures and practices to ease harmonization. A High-Level Forum on Aid Effectiveness followed these efforts in March 2005 in Paris, which led to the Paris Declaration on Aid Effectiveness. Participants reconfirmed their commitment to the global agenda on harmonization, alignment and results and agreed to provide more predictable and multi-year commitments on aid flows. They also reached agreement on 12 indicators for monitoring reforms in aid delivery and management, and set targets for achieving these by 2010. These indicators include: having in place operational development strategies, reliable public financial management systems, aid flows aligned to national priorities, strengthened capacity through coordinated support, untied aid, common program-based approaches, joint missions to the field, joint country analytic work, results-oriented frameworks and mutual assessment reviews for all partners.

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 better harmonization and alignment. During FY 2005, along with reviews on the Poverty Reduction Strategy Paper and Bank conditionality, the pilot phases of the results-based Country Assistance Strategy methodology were completed, and a stock taking paper was reviewed by the Board. Efforts to strengthen country-level statistical capacity continued, and the IDA14 Results Measurement System was developed. At the global level, the Bank coordinated the preparation of a sourcebook on managing for development results, using Canadian International Development Agency (CIDA) funds, with the Joint Venture on Managing for Development Results. With the goal of further improving the effectiveness of the institution, the Bank has also enhanced the voice of developing countries at the Board by providing additional resources to the two African Executive Directors' Offices, has established a mid-career secondment program for officials from developing countries, and is decentralizing decision making to the field.

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 2005, Bank staff analyzed the effects of gender-based barriers to development, and will use the knowledge gained in this exercise to help countries address gender issues. The Bank also held its first workshop on gender-based violence, and monitored and evaluated its progress in promoting gender equality. To further knowledge exchange with its development partners, the Bank provides a number of statistical indicators on gender on its website.

While the gender strategy and the bank's implementation plan are well formulated, CIDA continues to monitor implementation and mainstreaming of its objectives throughout the Bank's operations, as this has been inconsistent to date.

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. The Bank's strategy in private sector development 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.

Commitments for 109 new projects with private sector development components in FY 2005 amounted to more than US$3.8 billion. With 23 country investment climate assessments completed this year, country assessments are now being used to guide reforms or support Bank projects in over 40 countries.

Now in its second year, the Doing Business project provides objective, quantifiable indicators of business regulation in 145 countries. This year's report, *Doing Business in 2005*, focuses on removing obstacles to growth. Like the inaugural report, the new report presents indicators in five main areas: 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, corruption, unemployment and poverty, and identify what reforms have worked.

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 for firms to invest productively and create jobs. Canada ranked fourth on ease of doing business after New Zealand, Singapore and United States.

World Development Report 2006: Equity and Development

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, poverty and investment climates. The reports are the Bank's best-known contribution to thinking about development.

The 2006 WDR concludes that inequality of opportunity, both within and among nations, results in wasted human potential and often weakens prospects for overall prosperity and economic growth. To correct this situation and reduce poverty more effectively, the WDR recommends ensuring more equitable access by the poor to health care, education, jobs, capital, and secure land rights, among others. It also calls for increasing equality of access to political freedoms and political power, breaking down stereotyping and discrimination, and improving access by the poor to justice systems and infrastructure. To level the playing field among countries, and thereby reduce global inequities that hurt the poor in developing countries, the report calls for the removal of trade barriers in rich countries, flexibility to allow greater in-migration of lower-skilled people from developing countries, and increased—and more effective—development assistance.

The 2006 WDR is available online at www.worldbank.org.

An important example of the private sector's role in development is the growing impact of microfinance. By providing financial services to those excluded from formal financial systems, such as small loans, deposit services, money transfers and insurance, microfinance institutions have been successful in improving the living conditions of the poor—particularly women—in developed and developing countries. Microfinance has proven to be an effective and powerful tool for poverty reduction, enabling the poor to take advantage of economic opportunities, as well as build assets, stabilize consumption, deposit money and protect themselves against risk. The Consultative Group to Assist the Poorest (CGAP) plays a critical role in helping to develop sustainable microfinance sectors. CGAP, a consortium of donors that includes the World Bank, the Canadian International Development Agency and 20 other multilateral and bilateral agencies, international financial institutions, and private organizations, was established in 1995 to help expand the poor's access to a range of reliable financial services. In FY 2005, CGAP committed US$9.5 million in new grants and initiatives to expand microfinance operations in the world's poorest countries. Canada strongly supports CGAP's efforts to expand the poor's access to reliable financial services and provides C$500,000 in annual contributions.

In 2005, CGAP continued to promote the importance of and best practices in microfinance through several new initiatives:

- It developed country-level savings assessment tools to provide donors, governments, international networks and technical service providers with a systematic methodology for analyzing opportunities and constraints to savings mobilization at the country level. To date, country-level assessments have been completed in Benin, Bosnia, Mexico and the Philippines—all meant to road-test the methodology before publication of the tool in 2006.
- CGAP awarded the second Annual CGAP Financial Transparency Award, working with world-class auditing firms, to recognize microfinance providers that comply with international disclosure guidelines, including the International Financial Reporting Standards.
- It sponsored the Pro-Poor Innovation Challenge, which awards funds to smaller institutions that demonstrate effective models and methodologies for deepening poverty outreach and impact, while working toward sustainability.
- Through its Retail Advisory Service, CGAP has begun to work with several commercial banks that intend to downsize their services to include low-income clients.
- CGAP launched the Technology Resource Center, an online portal to help microfinance institutions select the best information system, learn how to implement it, share experience on the use of new technologies such as automated teller machines, PDAs and credit scoring, and find funding for their technology or innovation.

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 analytic work. In FY 2005, Bank lending for governance totalled US$2.6 billion, or 12 per cent of new lending.

Promoting Good Governance

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 include poverty assessments, country economic memoranda, public expenditure reviews, country procurement assessment reviews and country financial accountability assessments. The World Bank Institute (WBI) helps policy makers from client countries develop the knowledge, skills and abilities that will enable them to improve governance and stem corruption. The WBI and the Bank's Development Economics Group produce the worldwide Governance Indicators, which assess more than 200 countries and territories on key dimensions of governance.

In its efforts to promote better governance practices, the WBI has established close working relations with the Parliamentary Centre of Canada and with international organizations. The IMF and World Bank also continue to support the work of the Toronto International Leadership Centre for Financial Sector Supervision to build capacity in the areas of financial sector supervision.

Promoting Good Governance

Chad

In early 2006, the World Bank suspended all new lending and disbursements, worth about US$125 million, to the Government of Chad. This action followed passage of amendments to the country's Petroleum Revenue Management Law by the Chadian National Assembly. These changes substantially weakened programs to improve the lives of poor people, which the World Bank has been supporting, and violated the Government's loan agreement with the Bank.

The World Bank had offered to assist the Government of Chad to address its financial difficulties by analyzing how the country's public finances have been managed. It had also proposed a review of how the Petroleum Revenue Management Law has been implemented to identify which, if any, amendments to the law might be warranted. In February 2006 the World Bank and the Government of Chad entered into a dialogue on the best ways to address its current financial crisis while protecting poverty reduction programs.

Kenya

In January 2006, the Bank approved a US$25-million Institutional Reform and Capacity Building Project to support the Government of Kenya's fight against corruption. Five other operations, totalling US$260.5 million, are scheduled for Board consideration by the end of June 2006. Several of these are pending completion of a review by the Bank's Department of Institutional Integrity.

Anti-Corruption

The Bank is a leader among international institutions in resources committed to fighting fraud and corruption in its own operations and in client countries. Since 1997, anti-corruption activities have been integral components of the Bank's public sector management portfolio. Annual anti-corruption action plans have helped to increasingly mainstream anti-corruption in the Bank's internal procedures, as well as country strategies, country dialogue and assistance. Between fiscal years 1997 and 2000, the Bank had undertaken more than 600 specific anti-corruption programs and governance initiatives in 95 borrower countries. In these years, the Bank 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 2006, 203 companies or individuals were ineligible from benefiting from contracts under World Bank-financed projects. In addition, the Bank issued 9 letters of reprimand to companies or individuals doing business under Bank-financed contracts.

Anti-Money Laundering

The Bank's program to fight money laundering and the financing of terrorism focuses on helping countries strengthen the integrity of their financial systems. In 2005, the Bank more than doubled its assistance in this area, providing training programs and long-term expert mentors for regulators, organizing global dialogues with public and private sectors, conducting assessments of country compliance with international best practices, and publishing reference guides and practical manuals.

Environmentally Sustainable Development

The Canadian Government, alongside Canadian civil society, has long advocated the need for the Bank to better integrate environmental considerations into its operations. Along with gender, this is an area that needs to be more strongly emphasized in Country Assistance Strategies and World Bank assessments of Poverty Reduction Strategy Papers. The Bank has estimated the economic costs of environmental degradation in many developing countries to be 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 in a sustainable manner.

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. The share of overall Bank lending directed to environmental and natural resource management increased significantly to 11 per cent in FY 2005 from 6 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$2.8 billion in GEF funding associated with an additional US$13.9 billion in public and private funds to support action in key areas. In FY 2005, 32 new GEF projects were approved for US$255 million in GEF financing and additional Bank financing of US$565 million.

The Bank has been particularly active in the area of climate change. The total World Bank Group/GEF climate change portfolio includes 62 projects, for which $6.2 billion has been mobilized: $730 million from the GEF and the balance from the World Bank donors and private investors.

For the last 10 years, the Bank has been among the largest investors in alternative energy in developing countries, investing more than $6 billion since 1990 in energy efficiency and renewable energy projects and programs and mobilizing more than $10 billion for the same purposes from private and public sources. Fourteen per cent of the Bank's energy portfolio is in alternative energy compared to 4 per cent in 1990. The Bank is committed to increasing its lending for renewable energy technologies by 20 per cent per year over the next five years.

Over the past few years, the World Bank has expanded its carbon finance business. These activities include the Prototype Carbon Fund, Community Development Carbon Fund, BioCarbon Fund and Pan-European Carbon Fund.

In FY 2005, the Bank further expanded its carbon finance operations with the introduction of an Umbrella Carbon Finance Facility (UCF). The purpose of the UCF is to aggregate multiple sources of funding, including from the Bank's existing carbon funds, to purchase large volumes of carbon emissions from pre-identified projects on behalf of governments and private firms. In January 2006, two projects, both in China, were funded through the UCF.

Investment Framework for Clean Energy and Sustainable Development

On July 8, 2005, Leaders at the G8 Summit in Gleneagles released a communiqué recognizing the importance of climate change as an environmental and development issue. Leaders highlighted the need for multiple policies, technologies and tools to address global climate change issues, including further World Bank action and leadership.

Specifically, leaders called on the World Bank to create a new framework for clean energy and development by: further integrating climate change and development policies by creating a framework for investment in clean energy and sustainable development; increasing dialogue with borrower countries; integrating options for lowering greenhouse-gas-intensive growth into Country Assistance Strategies; developing local commercial financing capacity; and expanding and extending the Global Gas Flaring Reduction Partnership.

The World Bank responded by establishing working groups to coordinate efforts on enhancing country dialogue, technology, financial products and communications. The Bank coordinated meetings with experts, partners, large emitters, key developing countries and international financial institutions to work towards developing an investment framework, appropriate insurance schemes and lending strategies to support low-carbon energy, infrastructure development and activities that are expected to reduce the risk to the poor of climate change.

The Bank will be providing an update of its investment framework in April 2006.

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 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, the implementation of safeguard policies was strengthenened. 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.

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, as well as encouraged the Bank's participation in the discussions related to Aid for Trade. Aid for Trade aims to provide additional assistance to developing countries to strengthen their trade-related capacity and to facilitate adjustment to trade reform.

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.
- At the regional level, promotion of effective cooperation, through both analytic work and active support for cross-cutting issues such as standards and trade liberalization.
- At the national level, promotion of trade issues in country strategies, including targeted country analysis and technical support.

During the Hong Kong Ministerial Conference in December 2005, World Trade Organization members reaffirmed the decisions and declarations that were adopted at Doha and renewed their resolve to complete the Doha work program. 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 Doha negotiations continue, the Bank will work with countries to quantify ways they might be affected individually and will help tailor reform programs to their needs.

In addition, the Bank is actively participating in shaping Aid for Trade related discussions. The enhanced Integrated Framework (IF) for Trade-Related Technical Assistance, where the World Bank plays the role of lead institution, is currently recognized as a central element of an Aid for Trade initiative. The IF assists least developed countries to mainstream trade in national poverty reduction strategies and to secure the delivery of coordinated and targeted trade-related technical assistance and capacity building. Canada is a strong supporter of the IF and, in addition to providing policy advice, contributed $3 million to the IF Trust Fund. Canada is Chair of the Geneva-based Task Force on the Enhanced 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 also 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.

In FY 2005, substantial headway was made in the Bank's transparency and disclosure agenda. In March 2005, the Executive Board approved a number of revisions to the Bank's disclosure policy that will extend and simplify information disclosure. These changes included adopting a unified Country Assistance Strategy disclosure policy for the IBRD and IDA; disclosing Board minutes, the staff manual, the budget paper and the staff compensation paper; and simplifying the disclosure clearance procedures.

Further 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 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. 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 2005, the Panel received three new requests for inspection involving projects in Honduras (Land Administration Project), Democratic Republic of Congo (Transitional Support for Economic Recovery Credit and Emergency Economic and Social Reunification Support Project) and Cambodia (Forest Concession Management and Control Pilot Project). 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 analytic 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.

Within Canada, NGOs have participated in a regular series of government meetings and conferences on such issues as multilateral debt, the environment, safeguard policies, 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.

Business Plan and Administrative Budget for 2005

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 2005, Executive Directors approved a net FY 2006 administrative budget of US$1,543 million, representing a nominal increase of 3.0 per cent over the approved budget for FY 2005. Given growing resource pressures and the need for the Bank to prioritize its operations, Executive Directors have recently 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.

IBRD Financial Results in 2005

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 2005, the IBRD managed to achieve a net return on assets of 2.79 per cent. The IBRD's main financial risk rests with the credit quality of its disbursed loan portfolio. At the end of FY 2005, the IBRD's equity-to-loans ratio, which is a summary measure of the institution's risk-bearing capacity, was 30.3, compared to 29.4 in FY 2004. These levels are considered sustainable.

Principal and charges totalling US$829 million from four IBRD borrowers[6] were recorded in "non-accrual" status at the end of FY 2005. No IBRD borrower entered into non-accrual status during the fiscal year. During FY 2005, the IBRD held provisions equivalent to about 3.2 per cent of its outstanding loan portfolio against anticipated losses. The Bank follows very conservative investment and hedging policies. In FY 2005, the IBRD raised US$13.0 billion in medium- and long-term debt on international capital markets to fund its operations, roughly the same as in FY 2004. 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 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 2005, the IBRD repurchased or called US$5.1 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 2005 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$662.5 million in FY 2005. 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.

[6] Côte d'Ivoire, Liberia, Seychelles and Zimbabwe.

Governors approved allocations from FY 2005 net income of US$400 million to IDA, US$210 million to the HIPC Trust Fund, and US$52.5 million to the Bank's surplus account. In FY 2005, Executive Directors approved the transfer of funds from the Bank's surplus account for disaster mitigation in Pakistan (US$5 million), Indonesia (US$25 million) and India (US$2.5 million).

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.
- 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*.
- Independent Evaluation Group 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.

International Finance Corporation

The International Finance Corporation (IFC), created in 1956, complements 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, 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. 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.

In FY 2005, the IFC signed investment commitments totalling US$6.5 billion for 236 projects in the developing world, compared to US$5.6 billion in FY 2004. Of this amount, US$1.1 billion was mobilized through loan syndications, compared to US$800 million in FY 2004. Of the US$5.4 billion of the IFC's own financing, US$4.5 billion was provided in the form of loans, US$216 million in the form of structured finance products (including guarantees), US$612 million as equity investments and quasi-equity investments, and US$4 million for risk management products. The IFC earned net income of US$2.0 billion in FY 2005, compared to US$993 million in FY 2004.

While the bulk of the IFC's financing is provided to middle-income countries, under its 2004 Strategic Directions paper, the institution is increasingly targeting frontier markets (countries such as those in Africa and frontier regions of larger emerging economies that are traditionally of limited interest to private investors). Moving forward, the IFC proposes significant growth (35 per cent by 2008) in these commitments.

Canada supports this stronger focus on frontier markets, while recognizing the difficulties posed by higher business costs and financial risks. It will also be important to monitor the proposed commitment growth to ensure the maintenance of project quality and the institution's long-term financial stability.

Technical Assistance and Advisory Services

The IFC also supports private sector development by providing technical assistance and advisory services that strengthen businesses. Technical assistance helps strengthen small and medium-sized enterprises, financial institutions, large companies, and the government entities involved in the private sector, in areas ranging from business capacity to management practices and strategies for growth. Much of its technical assistance work is conducted through facilities managed by the IFC, but funded through partnerships with donor governments and other multilateral institutions.

This is a fast-growing part of the IFC's business: in FY 2005, nearly one-third of the IFC's staff worked in 24 operations, while donor-funded operations accounted for about $108 million in expenditures, including more than $57 million in funding from the IFC.

Canada supports a number of these initiatives, including the Foreign Investment Advisory Service, which helps countries implement investment climate reforms, and the Strengthening Grassroots Business Initiative, which is a new approach to providing business development services and financing needed by small and medium-sized enterprises whose operations provide clear social benefits.

Global Trade Finance Program

Launched in FY 2005, the IFC's Global Trade Finance Program is aimed at supporting trade with emerging markets worldwide. It extends and complements the capacity of banks to deliver trade financing by providing risk coverage in difficult markets. The US$500-million program targets banks in Africa, Asia, Latin America and the Middle East.

The IFC will provide partial or full guarantees on the payment risk of banks in over 70 developing and transition countries, with the objective of increasing developing countries' share of global trade and promoting the "South-to-South" flow of goods and services. The guarantees will be used primarily to support short-term trade, but will accommodate longer terms of up to three years for capital good imports.

Updating the IFC's Policies and Guidelines

To ensure that its environmental and social standards remain relevant to a rapidly evolving marketplace, the IFC undertook an integrated review process to update its Safeguard Policies, Policy on Disclosure of Information, and Environmental Health and Safety (EHS) Guidelines.

The review involved a broad consultation process with stakeholders around the world, including governments, clients and partners, and representatives of civil society.

The outcome, accepted by the Board in February 2006, is a new policy framework. The new draft Disclosure Policy speaks to the IFC's commitments and responsibility to disclose information about itself as an institution. A new policy framework for managing environmental and social risks is being introduced. The existing Safeguard Policies have been recast as the IFC Sustainability Policy and the Performance Standards. The IFC Sustainability Policy outlines the IFC's roles and responsibilities in ensuring project performance in partnership with clients. The Performance Standards detail the requirements necessary for clients to receive and retain IFC support and clarify what is expected of clients. Public disclosure requirements for clients are found in the Performance Standards as an integral part of directives to ensure early and ongoing engagement with communities that are affected by projects. The EHS Guidelines are technical reference documents that address the IFC's expectations regarding the industrial pollution management performance of its projects.

Canada was an active participant in the consultation process. In November 2005, Canadian Government officials from the Department of Finance Canada, the Canadian International Development Agency, Foreign Affairs Canada, Natural Resources Canada and Environment Canada met with representatives from the IFC to discuss the new policies. Canadian civil society also had the opportunity to provide feedback to the IFC, both directly through the IFC's own outreach process and through meetings with Canadian officials.

The International Finance Corporation's Social and Environmental Sustainability Performance Standards

The IFC applies the Performance Standards to manage social and environmental risks and impacts and to enhance development opportunities in its private sector financing in its member countries eligible for financing. The Performance Standards may also be applied by other financial institutions electing to apply them to projects in emerging markets. Together, the eight Performance Standards establish a principles-based approach, which requires clients to consider, consult on and address the impacts of their operations throughout the life of an investment by the IFC or other relevant institutions.

Performance Standard 1:	Social and Environmental Assessment and Management System.
Performance Standard 2:	Labour and Working Conditions.
Performance Standard 3:	Pollution Prevention and Abatement.
Performance Standard 4:	Community Health and Safety.
Performance Standard 5:	Land Acquisition and Involuntary Resettlement.
Performance Standard 6:	Conservation of Biodiversity and Sustainable Natural Resource Management.
Performance Standard 7:	Indigenous Peoples.
Performance Standard 8:	Cultural Heritage.

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 2005, MIGA approved 62 guarantees totalling US$1.2 billion for 33 projects, of which 20 were in IDA-eligible countries. IDA-eligible countries also benefited in FY 2005 from 20 MIGA technical assistance efforts. During FY 2005, MIGA also increased its support for investors from developing countries, frontier markets and fragile states: it supported 4 South-South investments, 20 investments in frontier markets and 12 investments in conflict-affected countries.

Managing Canada's Interests

The Honourable James Michael Flaherty, Minister of Finance, is Canada's Governor to the World Bank and is responsible for the management of Canada's interests at the Bank. The Minister 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 Flaherty represents the interests of Canada and all other members of the Canada/Ireland/Commonwealth Caribbean constituency.

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.

The Department of Finance Canada leads on World Bank issues and consults closely with the Canadian International Development Agency (CIDA) and Foreign Affairs Canada in formulating Canadian policies related to Bank issues. Robert Greenhill, the President of CIDA, is Canada's Alternate Governor for the World Bank.

Canadian Executive Director's Office

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 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 of 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 website 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	Terry Winsor (Canada)
Senior Advisor	François Pagé (Canada)
Senior Advisor	Brendan Ryan (Ireland)
Senior Advisor	Stephen Free (Canada)
Advisor	Sharmila Prakash Khare (Canada)
Advisor	Timothy Antoine (Caribbean)
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Canada's Financial Participation

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. 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 its capital is replenished through occasional general capital increases. The last general capital increase was in 1988.

Canada's Total IBRD Subscriptions and Contributions Committed

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

IDA

As IDA concessional financing does not generate a financial return, its operations are 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 $1,043.25-million obligation under IDA14, the Government will issue demand notes in fiscal years 2006–07, 2007–08 and 2008–09, each valued at $347.75 million.[7]

Canada's Contribution to IDA14 (July 2005–June 2008)

(in millions of Canadian dollars)	**Canada's IDA14 donor share** (per cent)	**Canada's IDA14 voting share** (per cent)
1,043.25	3.75	2.96

Canada's Financial Participation in the IFC

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

Canada's Financial Participation in MIGA

Total	**Subscriptions** (% of total)	**Voting power** (% of total)
US$56.5 million	3.11	2.74
Of which paid-in US$10.7 million		
Of which callable US$45.8 million		

[7] Canada will pay its contribution to IDA14 in three equal installments and benefit from a discount of C$88.43 million for a net contribution of C$954.82 million. The discounted amount will require note issuances of C$318.27 million each fiscal year.

Canadian Procurement at the World Bank

Canadian firms benefit from access to 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 2005, Canadian firms were awarded approximately 143 contracts. Canadian firms were most successful in the areas of public administration and governance, transport, education, mining and energy, health, and finance. Several firms won multiple contracts including Tecsult, Hydro-Québec, Geomar, FreeBalance, and Développement International Desjardins. For Bank-financed procurement, the World Bank only reports contracts awarded above the "prior review" threshold. Therefore, the overall procurement value for Canadian firms is much higher since small contracts are not recorded.

The Executive Director's office, the Office of Liaison with International Financial Institutions (IFIs) at the Canadian Embassy, and the Canadian Private Sector Liaison Officers (PSLOs)[8] to the World Bank undertook a range of outreach and training sessions with the Canadian private sector in 2005. Twenty Bank experts spoke at a series of events across Canada that engaged more than 1,000 private sector participants. Key events included International Development Days (Halifax, April 2005), the Conférence de Montréal (May 2005), and IFI Bootcamp (Kananaskis, October 2005). In addition, the PSLOs led trade missions to Washington with a total of 59 firms, and one PSLO organized a field mission to East Africa with two firms. The PSLO network has broadened its understanding of World Bank policies and in 2005 moved beyond basic procurement training with targeted activities to assist Canadian firms in writing proposals and winning contracts.

Trust Fund Activities

The Bank has adopted a set of reforms that will effectively see the closure of all tied trust funds by the end of FY 2007, including consultant trust funds. In line with our aid effectiveness commitments, Canada supports 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 July 2007. Going forward, Canadian consultants will be able to access a much wider range of opportunities by becoming eligible for contracts funded by any trust fund. Access to procurement opportunities is also expected to become much easier with the 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.

[8] The PSLOs include: the regional office of International Trade Canada in Vancouver, Alberta Economic Development, Saskatchewan Trade and Export Partnership, Manitoba Trade and Investment, Canadian Manufacturers & Exporters, World Trade Centre Montréal, and Business New Brunswick.

Challenges Ahead

Five years ago, world leaders laid out a development vision with the Millennium Development Goals (MDGs), which set clear targets for eradicating poverty. This was followed in 2002 by the Monterrey Consensus, which stressed the mutual accountability of developed and developing countries in achieving these goals. With only a decade left to meet these MDG targets, current stock taking exercises suggest their achievement will require a significant scaling up of actions. 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.

On March 31, 2005, the Executive Directors unanimously selected Paul Wolfowitz to become the Bank's 10th President. President Wolfowitz is committed to continuing to strengthen the Bank's primary focus on poverty reduction and sustainable growth in developing member countries, as well as the emphasis on partnerships and donor coordination and harmonization.

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. This is particularly the case with fragile states. 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.

The Bank will continue to provide support to developing countries facing a broad range of economic, institutional 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 increasingly selective and transparent in its operations.

Joint Issues

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. Most notably, this year, the Bank and Fund were key players in the Multilateral Debt Relief Initiative.

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 development policies. Currently, 38 countries are being considered for assistance under the HIPC Initiative. Guyana, a member of Canada's constituency at the World Bank, completed the HIPC process in December 2003.

Good progress has been made. As of the end of December 2005, 28 countries were benefiting from debt relief under the HIPC Initiative. Eighteen of them (Benin, Bolivia, Burkina Faso, Ethiopia, Ghana, Guyana, Honduras, Madagascar, Mali, Mauritania, Mozambique, Nicaragua, Niger, Rwanda, Senegal, Tanzania, Uganda and Zambia) have completed the HIPC process and have received irrevocable debt relief. For these countries, US$56 billion in debt relief has been committed under the HIPC Initiative and they will benefit from an average reduction of two-thirds in their debt burdens. Importantly, for these countries, social spending has dramatically increased, 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. A preliminary list of potential new HIPC Initiative entrants was compiled in 2005. A short list is bring finalized and is expected to be ready in early 2006.

To provide additional support for these countries' efforts to reach the United Nations' Millennium Development Goals (MDGs), in June 2005, G8 countries put forward a multilateral debt relief proposal that would cancel 100 per cent of the debts owed to the IMF, IDA and the African Development Fund (AfDF). This would be available to countries that complete the HIPC Initiative. The debt cancellation would provide further significant support for countries' efforts to reach the MDGs, while ensuring that the financing capacity of the international financial institutions is not reduced.

In September 2005, the Governors of the World Bank and IMF indicated their support for the G8 proposal at the Annual Meetings of these institutions. Since then, substantial progress has been made towards completing the process of debt relief for the world's poorest countries. In January 2006, the IMF began implementing the G8 debt proposal, which is now called the Multilateral Debt Relief Initiative (MDRI), by cancelling the debts of 19 countries. In early December 2005, IDA and AfDF donors met to finalize MDRI funding. The remaining implementation details are being worked out, and the debt cancellation by IDA and the AfDF is expected to take effect by July 2006.

Canada's Actions in Support of Debt Relief for the World's Poor

Canada has been at the forefront of international efforts to reduce the debt burdens of the world's poorest countries, both multilaterally and bilaterally.

Multilaterally, Canada has advanced the debt relief agenda by:

- Committing $34 million in Budget 2005 to further debt relief efforts, bringing our total contribution to the HIPC debt relief trust funds at the IMF ($65 million) and World Bank ($281 million) to $346 million.
- Being a leading advocate of the 100 per cent multilateral debt reduction proposal initially put forward by the G8 and now called the Multilateral Debt Relief Initiative. Canada has allocated resources to pay its share of the costs over the first five years.
- Strongly supporting the World Bank and IMF long-term debt sustainability framework for low-income countries and the adoption of this framework under IDA14.

Bilaterally, Canada is helping the poorest countries by:

- No longer collecting debt payments from reforming HIPCs on loans outstanding as of March 31, 1999, under the Canadian Debt Initiative (CDI).
- Forgiving, under the CDI, all remaining debts owed to Canada by eligible countries that have completed the HIPC process—Benin, Bolivia, Ethiopia, Ghana, Guyana, Honduras, Madagascar, Rwanda, Senegal, Tanzania and Zambia.
- Forgiving $1.3 billion in Official Development Assistance (ODA) debt for 46 developing countries since 1978, including all of its ODA debt for 22 HIPCs, at a cost of $900 million. (Among HIPCs, only Myanmar (formerly Burma) currently has ODA debt to Canada.)
- 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 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 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 IMF introduced a new Debt Sustainability Framework (DSF) 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 DSF was finalized and adopted under IDA14 in 2005.

The DSF offers a more thorough and appropriate analysis of debt sustainability and takes into consideration country specific circumstances. The new framework is forward-looking, focusing on long-term debt sustainability and preventing future debt crises. It has significant implications for how debt vulnerability is assessed and how donors provide resources to low-income countries. Under the framework, countries with limited capacity to carry debt (countries that have weak governance, for example) would receive a higher percentage of financing in the form of grants than countries with better debt management capacities.

Annex 1

Active IMF Lending Arrangements—As of December 31, 2005

Member	Date of arrangement	Expiration date	Amount approved	Undrawn balance
			(in SDR millions)	
Stand-By Arrangements—Total			**18,659**	**12,491**
Argentina	September 20, 2003	September 19, 2006	8,981	4,810
Bolivia	April 2, 2003	March 31, 2006	146	34
Bulgaria	August 6, 2004	September 5, 2006	100	100
Colombia	May 2, 2005	November 2, 2006	405	405
Croatia, Republic of	August 4, 2004	April 3, 2006	97	97
Dominican Republic	January 31, 2005	May 31, 2007	438	289
Iraq	December 23, 2005	March 22, 2007	475	475
Macedonia, FYR	August 31, 2005	August 30, 2008	52	41
Peru	June 9, 2004	August 16, 2006	287	287
Romania	July 7, 2004	July 6, 2006	250	250
Turkey	May 11, 2005	May 10, 2008	6,662	4,997
Uruguay	June 8, 2005	June 7, 2008	766	705
Extended Fund Facility Arrangements—Total			**794**	**186**
Serbia and Montenegro	May 14, 2002	February 28, 2006	650	62
Sri Lanka	April 18, 2003	April 17, 2006	144	124

Annex 1

Active IMF Lending Arrangements—As of December 31, 2005 *(cont'd)*

Member	Date of arrangement	Expiration date	Amount approved	Undrawn balance
			(in SDR millions)	
Poverty Reduction and Growth Facility Arrangements—Total			**2,702**	**1,144**
Armenia	May 25, 2005	May 24, 2008	23	16
Bangladesh	June 20, 2003	June 19, 2006	400	185
Benin	August 5, 2005	August 4, 2008	6	5
Burkina Faso	June 11, 2003	August 15, 2006	24	7
Burundi	January 23, 2004	January 22, 2007	69	29
Cameroon	October 24, 2005	October 23, 2008	19	16
Chad	February 16, 2005	February 15, 2008	25	21
Congo, Republic of	December 6, 2004	December 5, 2007	55	39
Congo, Democratic Republic of	June 12, 2002	March 31, 2006	580	27
Dominica	December 29, 2003	December 28, 2006	8	2
Georgia	June 4, 2004	June 3, 2007	98	56
Ghana	May 9, 2003	October 31, 2006	185	79
Guyana	September 20, 2002	September 12, 2006	55	19
Honduras	February 27, 2004	February 26, 2007	71	41
Kenya	November 21, 2003	November 20, 2006	225	150
Kyrgyz Republic	March 15, 2005	March 14, 2008	9	6
Malawi	August 5, 2005	August 4, 2008	38	33
Mali	June 23, 2004	June 22, 2007	9	7
Mozambique	July 6, 2004	July 5, 2007	11	6
Nepal	November 19, 2003	November 18, 2006	50	36
Nicaragua	December 13, 2002	December 12, 2005	98	36
Niger	January 31, 2005	January 30, 2008	26	15
Rwanda	August 12, 2002	February 11, 2006	4	1
São Tomé and Principe	August 1, 2005	July 31, 2008	3	3
Senegal	April 28, 2003	April 27, 2006	24	14
Sri Lanka	April 18, 2003	April 17, 2006	269	231
Tajikistan	December 11, 2002	February 10, 2006	65	10
Tanzania	August 16, 2003	August 15, 2006	20	6
Uganda	September 13, 2002	December 31, 2005	14	2
Zambia	June 16, 2004	June 15, 2007	220	44
Total			**21,679**	**14,455**

Annex 2

Projects Approved for IBRD and IDA Assistance in Fiscal Year 2005, by Country (July 1, 2004–June 30, 2005)

	IBRD loans	IDA loans	Total loans	
	Amount	Amount	No.	Amount
		(in millions of US dollars)		
Borrower or Guarantor				
Afghanistan	–	285.0	6	285.0
Africa Region	–	152.0	4	152.0
Albania	–	61.5	4	61.5
Angola	–	71.7	2	71.7
Argentina	480.0	–	3	480.0
Armenia	–	40.0	2	40.0
Azerbaijan	48.0	51.8	5	99.8
Bangladesh	–	600.0	3	600.0
Benin	–	125.0	3	125.0
Bhutan	–	7.0	1	7.0
Bolivia	–	43.4	2	43.4
Bosnia and Herzegovina	–	57.0	3	57.0
Brazil	1,771.8	–	8	1,771.8
Bulgaria	150.0	–	1	150.0
Burkina Faso	–	135.6	3	135.6
Burundi	–	35.0	1	35.0
Cambodia	–	38.0	2	38.0
Cameroon	–	18.2	1	18.2
Cape Verde	–	30.0	2	30.0
Central America Region	–	8.0	1	8.0
Central Asia Region	–	25.0	1	25.0
Chad	–	48.0	2	48.0
Chile	50.3	–	1	50.3
China	1,030.0	–	9	1,030.0
Colombia	912.0	–	8	912.0
Congo, Democratic Republic of	–	142.0	2	142.0
Congo, Republic of	–	50.0	2	50.0
Costa Rica	30.0	–	1	30.0
Croatia	85.7	–	2	85.7
Djibouti	–	6.5	1	6.5
Dominican Republic	150.0	–	1	150.0
Ecuador	100.0	–	1	100.0
Egypt, Arab Republic of	140.0	–	2	140.0
El Salvador	145.2	–	3	145.2
Eritrea	–	74.0	2	74.0
Ethiopia	–	449.9	6	449.9
Gambia	–	4.0	–	4.0
Georgia	–	23.0	1	23.0
Ghana	–	314.0	4	314.0
Grenada	5.0	5.0	1	10.0
Guinea	–	55.3	2	55.3
Guinea-Bissau	–	7.0	1	7.0
Haiti	–	75.0	3	75.0
Honduras	–	92.0	2	92.0

Annex 2

Projects Approved for IBRD and IDA Assistance in Fiscal Year 2005, by Country (July 1, 2004–June 30, 2005) *(cont'd)*

	IBRD loans	IDA loans	Total loans	
	Amount	Amount	No.	Amount
		(in millions of US dollars)		
India	1,748.5	1,137.8	11	2,886.3
Indonesia	680.8	236.4	8	917.2
Iran, Islamic Republic of	564.0	–	3	564.0
Jordan	15.0	–	1	15.0
Kazakhstan, Republic of	59.0	–	2	59.0
Kenya	–	120.0	3	120.0
Kosovo	–	15.0	3	15.0
Kyrgyz Republic	–	38.1	3	38.1
Lao People's Democratic Republic	–	76.0	3	76.0
Lesotho	–	19.1	2	19.1
Macedonia, Former Yugoslav Republic of	25.3	–	2	25.3
Madagascar	–	193.0	1	193.0
Malawi	–	47.2	2	47.2
Maldives	–	29.6	2	29.6
Mali	–	80.0	2	80.0
Mauritania	–	54.0	2	54.0
Mexico	587.8	–	4	587.8
Moldova	–	11.5	1	11.5
Mongolia	–	18.3	2	18.3
Morocco	330.0	–	3	330.0
Mozambique	–	170.0	2	170.0
Nepal	–	135.0	4	135.0
Nicaragua	–	26.0	2	26.0
Niger	–	40.0	1	40.0
Nigeria	–	329.8	3	329.8
Organisation of Eastern Caribbean States	1.4	1.4	1	2.7
Pakistan	347.4	500.0	4	847.4
Paraguay	28.2	–	3	28.2
Peru	456.8	–	7	456.8
Philippines	99.0	–	3	99.0
Poland	230.5	–	2	230.5
Romania	786.0	–	7	786.0
Russian Federation	205.0	–	2	205.0
Rwanda	–	110.0	3	110.0
São Tomé and Principe	–	5.0	1	5.0
Senegal	–	112.8	5	112.8
Serbia and Montenegro	–	114.0	5	114.0
Sierra Leone	–	103.7	3	103.7
Slovak Republic	6.5	–	1	6.5
Sri Lanka	–	203.0	3	203.0
Saint Lucia	7.1	7.1	2	14.2
Saint Vincent and the Grenadines	3.5	3.5	1.0	7.0

Annex 2

Projects Approved for IBRD and IDA Assistance in Fiscal Year 2005, by Country (July 1, 2004–June 30, 2005) *(cont'd)*

	IBRD loans	IDA loans	Total loans	
	Amount	Amount	No.	Amount
		(in millions of US dollars)		
Tajikistan	–	28.0	2	28.0
Tanzania	–	355.5	3	355.5
Timor-Leste	–	5.0	1	5.0
Tonga	–	1.0	1	1.0
Tunisia	163.1	–	2	163.1
Turkey	1,800.1	–	7	1,800.1
Uganda	–	327.6	3	327.6
Ukraine	192.6	–	2	192.6
Uruguay	175.4	–	3	175.4
Uzbekistan	–	40.0	1	40.0
Vietnam	–	698.8	9	698.8
Western Africa Region	–	40.0	1	40.0
Yemen, Republic of	–	65.0	1	65.0
Zambia	–	68.2	2	68.2
Bank-wide total	**13,610.8**	**8,696.1**	**278**	**22,307.0**

Annex 3

IBRD Loans and IDA Credits—Summary Statistics
Fiscal Year 2005 (July 1, 2004–June 30, 2005)

	IBRD	IDA	Total	
	Amount	Amount	No.	Amount
	(in millions of US dollars)			
By Area				
Africa	0.0	3887.5	76	3,887.5
East Asia and Pacific	1,809.8	1,073.5	38	2,883.3
Europe and Central Asia	3,588.6	504.9	59	4,093.5
Latin America and the Caribbean	4,904.4	261.3	58	5,165.7
Middle East and North Africa	1,212.1	71.5	13	1,283.6
South Asia	2,095.9	2,897.4	34	4,993.3
Total	**13,610.8**	**8,696.1**	**278**	**22,307.0**
By Theme				
Economic Management				594.6
Environmental and Natural Resource Management				2,493.8
Financial and Private Sector Development				3,862.0
Human Development				2,951.0
Public Sector Governance				2,636.4
Rule of Law				303.8
Rural Development				2,802.2
Social Development, Gender, Inclusion				1,285.8
Social Protection and Risk Management				2,437.6
Trade and Integration				1,079.9
Total				**22,307.0**

Annex 4

World Bank Procurement from Canada

Disbursements by IBRD and IDA Borrowers: Goods and Services From Canada—To June 30, 2005

	IBRD	IDA	Total
	Amount	Amount	Amount
		(in millions of US dollars)	
By Fiscal Year			
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
2004–05*	56.1	35.5	94.6

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

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						
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
2004–05	118	13,610.8	160	8,696.1	278	22,307.0

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.

Annex 5

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

Washington, D.C.
April 16, 2005

1. The International Monetary and Financial Committee held its eleventh meeting in Washington, D.C. on April 16, 2005 under the Chairmanship of Mr. Gordon Brown, Chancellor of the Exchequer of the United Kingdom.

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

2. The Committee welcomes the continuing global economic expansion, underpinned by supportive macroeconomic policies, improving corporate balance sheets, and benign financial market conditions. While returning to a more sustainable pace, global growth will likely remain robust in 2005. The Committee notes, however, that widening imbalances across regions and the continued rise in oil prices and oil market volatility have increased risks. The potential for a sharper-than-expected rise in long-term interest rates from their very low levels and for increased exchange rate volatility also calls for vigilance. The Committee emphasizes that in the coming months IMF surveillance should focus on promoting policies for reducing global imbalances over time; addressing the impact of higher oil prices, in particular on the most vulnerable countries; managing the policy response to potential inflationary pressures; and ensuring the sustainability of medium-term fiscal frameworks.
3. The Committee reiterates that all countries have a shared responsibility to take advantage of the current favorable economic conditions to address key risks and vulnerabilities. To ensure orderly adjustment of global imbalances and to help achieve more sustainable external positions and stronger medium-term growth, the Committee calls for concrete actions by all to implement the agreed policy response in a timely and effective manner. This includes fiscal consolidation to increase national savings in the United States; greater exchange rate flexibility as appropriate, supported by continued financial sector reform, in emerging Asia; further structural reforms to boost growth and domestic demand in Europe; and further structural reforms, including fiscal consolidation, in Japan.
4. The Committee notes that conditions in the oil market will remain tight in the medium term, reflecting strong global demand, low excess capacity, and supply concerns even after investments in some countries. It underscores the importance of stability in oil markets for global prosperity, and recognizes the impact of higher oil prices especially on poorer

communities. In this context, the Committee calls for efforts to remove disincentives to investment in oil production and refining capacity, and to promote energy sustainability and efficiency, including through new technologies and removing barriers to the development of alternative fuels. It encourages closer dialogue between oil exporters and importers, and further efforts to improve oil market data and transparency.

5. Inflation remains relatively subdued in most countries, reflecting in part greater credibility of monetary policy. However, with inflationary pressures likely to increase as the expansion matures, a smooth transition to more neutral interest rates remains a priority in many countries, although the appropriate timing and pace will vary, depending on countries' cyclical positions. In countries receiving strong capital inflows, exchange rate flexibility would facilitate monetary management.

6. Steps to strengthen fiscal positions within sound frameworks and address structural weaknesses will also be critical for supporting medium-term growth and macroeconomic stability, and meeting demographic challenges. Fiscal deficits remain high in many industrial countries and should be reduced. In emerging markets, fiscal indicators have generally improved, but in countries with high levels of public debt continued efforts will be needed to reduce them to more sustainable levels. In both industrial and developing economies, structural reforms need to be advanced to remove rigidities and ensure sustainable growth. The Committee welcomes Argentina's rapid recovery. The recent debt exchange offer represents an important step toward the long-term goal of sustainable growth. Argentina will now need to formulate a forward-looking strategy to resolve the remaining arrears outstanding to private creditors consistent with the IMF's lending into arrears policy, and to continue with necessary structural reforms.

7. Poverty reduction must remain at the top of the international agenda. The Committee welcomes the strong growth performance across developing countries, particularly in sub- Saharan Africa, but notes with concern that most of them are at risk of falling well short of the Millennium Development Goals (MDGs).[1] With improved macroeconomic stability in most countries, the key challenge remains to press ahead with reforms to strengthen the investment environment and foster private sector-led growth. The global community, in turn, needs to support these reform efforts through meeting commitments to increased and better coordinated financial and technical assistance, further debt relief, policies to improve remittance flows, and improved market access for developing countries.

8. The Committee emphasizes that successful and ambitious multilateral trade liberalization is central to sustained global growth and economic development. The immediate priority is for WTO members to translate the mid-2004 framework agreements into a viable policy package in time

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

for the December 2005 WTO Ministerial Conference. The Committee encourages Doha participants to aim for ambitious and comprehensive results, notably in agriculture; substantial reductions in barriers to other trade, including liberalization in financial and other services; and strengthened multilateral trade rules. The Committee supports the IMF's continued role in advocating trade liberalization and assisting members to benefit from it. It encourages the IMF to work with other partners in the Integrated Framework to explore further ways of easing adjustment to trade liberalization, including through the Trade Integration Mechanism, and building capacity in low-income countries. The Committee looks forward to consideration of proposals at its next meeting.

Shaping the IMF's Strategic Direction

9. The Committee welcomes the discussions underway on the IMF's medium-term strategy, and looks forward to reaching conclusions by the 2005 Annual Meetings and further reflection on longer-term issues. The Committee agrees that the central elements of the IMF's mandate as set out in its Articles of Agreement remain as important as ever. The challenge is to enhance the IMF's effectiveness in pursuing its core objectives, while continuing to adapt to changing global economic circumstances. This would ensure that the IMF remains relevant for all its members, which would further foster the coherence, credibility, and evenhandedness of the IMF.
10. The Committee calls for further work on the following emerging priorities that will help shape the institution's strategic direction:
    - Surveillance is a central task of the IMF and determined efforts are required to enhance its effectiveness and impact, building on the conclusions of the Biennial Review of Surveillance. Surveillance should become more focused and selective in analyzing issues, in an evenhanded way across the membership. Regional and global surveillance should play an increasingly important role, and be better integrated with bilateral surveillance.
    - Work on financial sector issues and international capital markets should be further strengthened to reduce vulnerabilities and promote financial stability. This, including the Financial Sector Assessment Program, should be integrated more fully into surveillance and other activities, and complemented by advice to members on ways to improve access to international capital markets and on orderly capital account liberalization.
    - The IMF's lending function is a central pillar of its mandate. All lending should be selective and anchored in strong country ownership and institutional frameworks, putting members firmly on the road to external viability. The Committee looks forward to further reflection on how the needs of members could be met through IMF arrangements, and whether new instruments or revisions to existing facilities are required.

- The IMF has a critical role to play in helping low-income countries in their efforts to reduce poverty and achieve strong, sustainable growth through sound policies and institutions for macroeconomic stability. Efforts should continue to adapt the IMF's activities and instruments to the special circumstances and challenges of low-income countries, based on strong cooperation and clarity of responsibilities with the World Bank.
- The IMF must meet the highest standards of internal management, control, auditing, and governance. This will require further deepening of budget reforms, further work on the IMF's finances and financial structure, and efficient deployment of resources to reflect priorities. The Committee also looks forward to further work on risk management and control, and personnel management systems.
- The IMF's effectiveness and credibility as a cooperative institution must be safeguarded and further enhanced. Adequate voice and participation by all members should be assured, and the distribution of quotas should reflect developments in the world economy. The Committee emphasizes that the period of the Thirteenth General Review of Quotas provides an opportunity for the membership to make progress toward a consensus on the issues of quotas, voice, and participation.

IMF Support for Low-Income Members' Efforts Toward Poverty Reduction and Strong, Sustainable Growth

11. The Committee underscores the conclusion of this year's Global Monitoring Report that bold actions are urgently needed by the developing countries and their partners to realize the MDGs. The U.N. Summit in September 2005 will mark an important milestone to review progress and lay out actions going forward. The IMF has a critical role in supporting—through policy advice, capacity building, and financial assistance, including debt relief—low-income countries' efforts to achieve macroeconomic stability, debt sustainability, and strong, sustainable high growth needed to make progress toward the MDGs.
12. Work is underway to refine the operational aspects of the Poverty Reduction Strategy (PRS) approach, improve the design of PRGF-supported programs, and enhance PRGF-PRS alignment. This will be underpinned by more extensive analyses of the sources of and obstacles to growth, and of the linkages between growth and poverty reduction. The Committee looks forward to further work to ensure adequate financing of the PRGF to meet future demands as assessed by the IMF, and other IMF instruments to assist low-income countries, including to help members deal with shocks. It also looks forward to further work on a policy monitoring arrangement to enhance the IMF's signaling role for countries that do not need or want IMF financing.

13. The Committee supports work by the IMF and World Bank on aid effectiveness and financing modalities. On innovative sources of development financing, such as the International Finance Facility (IFF) and its pilot—the IFF for immunization—global taxes which could also refinance the IFF, the Millennium Challenge Account, and other financing measures, it welcomes the joint IMF and World Bank note outlining progress that has been made. The Committee asks to be kept informed of the further work ahead of the U.N. Summit.
14. The Committee notes the recent progress in providing debt relief under the HIPC Initiative. It encourages countries to take the necessary actions to benefit from the Initiative, and urges full creditor participation. The Committee supports the joint IMF-World Bank framework to assist low-income countries' efforts to achieve and maintain debt sustainability while pursuing their development objectives, and a review of experience under the framework.
15. The Committee welcomes the IMF's work and the preliminary discussion of key issues regarding proposals for further multilateral debt relief and its financing options, and calls for further discussion with shareholders and examination of these issues, including the possible use of the IMF's resources, by the time of its next meeting. It notes that any possible further debt relief from the IMF should be part of a wider international effort.

Other Issues

16. The Committee welcomes progress toward meeting the objectives of IMF surveillance identified at its last meeting, including in the areas of exchange rate issues, financial sector surveillance, better integrating debt sustainability analysis and regional and global spillovers into country surveillance, and balance sheet vulnerabilities. It also welcomes the *Africa Regional Economic Outlook*. The Committee looks forward to the upcoming review of the Standards and Codes Initiative to assess its effectiveness in informing surveillance, enhancing crisis prevention, and strengthening countries' institutions.
17. The Committee welcomes the increased adoption of collective action clauses in international sovereign bonds, and calls on the IMF to continue to promote progress in this area. It notes the "Principles for Stable Capital Flows and Fair Debt Restructuring in Emerging Markets" being developed by a number of sovereign issuers and the investor community, and encourages further efforts to improve the Principles aimed at achieving a broad consensus. The Committee looks forward to further work on the orderly resolution of financial crises, including the implementation of the IMF's lending into arrears policy.
18. The Committee takes note of the recent review of IMF conditionality, including the design of IMF-supported programs. Progress has been made in streamlining conditionality and fostering national ownership. The Committee encourages the IMF to incorporate the findings of the review into its operational work, and to deepen further its analysis of key elements of program design.

19. The Committee recommends completion of the ratification of the Fourth Amendment.
20. The Committee wishes to thank James Wolfensohn for his great contribution as President of the World Bank. During his time at the helm of the Bank, great strides have been made in cooperation and partnership between the IMF and the World Bank, and in progress toward realizing our dream of a world free of poverty.
21. It is expected that the next meeting of the IMFC will be held in Washington, D.C. on September 23, 2005.

Washington, D.C.
September 24, 2005

1. The International Monetary and Financial Committee held its twelfth meeting in Washington, D.C. on September 24, 2005 under the Chairmanship of Mr. Gordon Brown, Chancellor of the Exchequer of the United Kingdom.

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

2. The Committee welcomes the ongoing global economic expansion, although it notes that growth divergences between countries remain wide. Global growth is expected to continue, although downside risks to the outlook have increased, especially high and volatile oil prices, recently exacerbated by the effects of Hurricane Katrina, the widening of global imbalances, increasing protectionist sentiment, and the possibility of tighter financial market conditions. While core inflation generally is contained and inflation expectations remain well anchored, higher oil prices remain a risk to price stability. The Committee notes that these areas should be a particular focus of IMF surveillance and policy advice in the coming months.
3. The Committee emphasizes that oil producers, oil consumers, and oil companies will all have their part to play in working together to promote greater stability in the oil market. First, the Committee welcomes the action by members of the International Energy Agency and oil-producing countries to continue to increase supplies to the market. Second, the Committee calls for further investment both now and in the long term throughout the supply chain, particularly in refining capacity including of heavy oil, and for efforts to create a favorable investment climate. Third, the Committee also stresses the importance of policies to promote energy conservation, efficiency, and sustainability, including through new technologies, alternative sources of energy, and reducing subsidies on oil products. Fourth, the Committee encourages closer dialogue between

oil producers and consumers, and further efforts to improve oil market data and transparency to improve market efficiency. Fifth, the IMF should stand ready to provide assistance to help members, especially poor countries, deal with oil price shocks.

4. The Committee welcomes recent progress in implementing the agreed policies to address global imbalances and foster growth, but urges further action to promote orderly adjustment in view of the heightened risks to the outlook. This includes: fiscal consolidation to increase national savings in the United States; greater exchange rate flexibility in emerging Asia; further structural reforms to boost potential growth in the euro area; and further structural reforms, including fiscal consolidation, in Japan, where the economy is regaining momentum. Measures to promote a more investor-friendly environment, including in a number of emerging market economies, would also contribute to reducing imbalances. Oil-exporting countries will also need to play their part, including through efficient absorption of higher oil revenues in countries with strong macroeconomic policies.
5. Steps to strengthen medium-term fiscal positions remain crucial for supporting global growth and stability. Fiscal deficits in many industrial countries need to be lowered further, and reforms to address pressures from aging populations and ensure the sustainability of pension and health care systems need to be accelerated. Improvements in the fiscal positions and debt structures of many emerging market countries are welcome, but in countries with high public debt levels continued fiscal consolidation efforts are needed. The Committee also calls for more ambitious efforts to address rigidities in labor and product markets in many countries. Regulatory and supervisory authorities should remain alert to risks stemming from ample global liquidity and associated risk taking and leverage.
6. The Committee emphasizes that a successful outcome to the Doha Round by the end of 2006 remains of critical importance for global growth and poverty reduction. Serious challenges remain in reaching agreement at the WTO ministerial meeting in Hong Kong SAR in December. As finance ministers and central bank governors of WTO member countries, we have a vital interest in successful multilateral trade liberalization. Benefiting from a useful exchange of views with Mr. Pascal Lamy, the Director-General of the WTO, the Committee calls on all countries to ensure progress on ambitious trade liberalization with the urgency that the timetable now demands. Key areas for action are: increasing market access, especially for developing countries; significantly reducing trade distorting domestic support; eliminating all forms of export subsidies in agriculture; and making significant progress on services, including financial services, and on issues of intellectual property. The Committee welcomes the joint IMF-World Bank staff report on proposals to enable low-income countries to benefit fully from trade liberalization, and urges the Executive Board to consider these proposals expeditiously.

7. The Committee welcomes the enhanced growth performance and prospects of many of the world's poorest countries, reflecting improvements in their underlying policies. With ten years remaining to meet the Millennium Development Goals (MDGs),[1] those countries should move rapidly to strengthen policies needed for sustainable growth and poverty reduction, including through sound macroeconomic frameworks and building the sound, accountable, and transparent institutions that are essential for fostering growth and supporting vibrant private sector growth. Also, the international community must follow through expeditiously on its renewed commitments to provide additional resources, including at the Gleneagles Summit and the Millennium Review Summit. An ambitious outcome to the Doha Round is also essential for poverty reduction.

IMF Objectives and Medium-Term Strategy

8. The Committee welcomes and supports the broad priorities set forth in the *Managing Director's Report on the Fund's Medium-Term Strategy* to improve the IMF's effectiveness in support of its members. In the coming years the IMF will continue to work to help members meet the economic challenges of globalization within its mandate in the macroeconomic and financial areas. The Committee looks forward to specific proposals and timelines on the main tasks identified in the medium-term strategy in the Executive Board's work program, within the context of the IMF's medium-term budget framework and the staff compensation review.
9. The broad priorities set out in the Managing Director's report[2] are to:
   - Make surveillance more effective;
   - Adapt to new challenges and needs in different member countries;
   - Help build institutions and capacity;
   - Prioritize and reorganize the IMF's work within a prudent medium-term budget; and
   - Address the issues of fair quotas and voice.

   The Committee agrees that the IMF needs to deepen its analysis of globalization and continue to develop its strategy for responding to the long-term challenges it poses.

Strengthening IMF Support for Low-Income Countries—Instruments; Financing; and Debt Relief

10. The Committee reiterates that the IMF has a critical role in supporting low-income countries through policy advice, capacity building, and financial assistance. The PRGF remains the main instrument for IMF

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

[2] The report can be found at http://www.imf.org/external/np/omd/2005/eng/091505.pdf.

financial support for low-income country members. The Committee agrees that the IMF's concessional lending should be financed at an appropriate level as assessed by the IMF. The Committee calls for incorporation of the lessons from the recent review of the design of PRGF-supported programs in the future work of the IMF in low-income countries.

11. The Committee welcomes the progress made on new instruments that will strengthen IMF support for low-income countries. The Policy Support Instrument (PSI) will be available to members that do not need, or want, IMF financial assistance, but voluntarily request IMF endorsement and continued assessment of their policies as meeting the standard of upper credit tranche conditionality. The country-owned policy frameworks designed by the authorities would consolidate medium-term macroeconomic and financial stability, and deepen reforms in support of poverty reduction and economic growth. A new window in the PRGF Trust will also be available to complement existing instruments by providing timely concessional support to low-income members without a regular PRGF arrangement and who are facing exogenous shocks, and we look forward to contributions from countries.
12. The Committee supports the proposal to provide 100 percent cancellation of debts owed by Heavily Indebted Poor Countries (HIPCs) to the IMF, the International Development Association and the African Development Fund. This will provide significant additional resources for countries' efforts to reach the MDGs and reinforce longer-term debt sustainability. The Committee welcomes the approach subsequently discussed in the IMF to ensure that the IMF's resources will be used consistently with the principle of uniformity of treatment. It stresses the importance of ensuring that the IMF's capacity to provide financing to low-income countries is maintained, and therefore welcomes G-8 countries' commitments to provide additional resources. It also emphasizes that countries benefiting from irrevocable debt relief should have demonstrated sound policies and high standards of governance. Following this agreement now reached on all the elements, the Managing Director has informed the Committee that he will now call the Executive Board together to complete its approval of the arrangements to deliver debt relief by the end of 2005. The implications of debt cancellation for the new debt sustainability framework should be addressed in the review scheduled for Spring 2006. There should be a regular report on progress at future meetings of the Committee.
13. The Committee underscores the importance of full creditor participation, including by non-Paris Club creditors and private creditors, in contributing their share to implementing the enhanced HIPC initiative. It takes note of the work on identifying low-income countries with unsustainable debts as of end-2004, with a view to finalization by early 2006 of the list of countries potentially eligible for HIPC assistance.
14. The year 2005 is the International Year of Microcredit. The Committee notes the IMF's role in improving data availability on microcredit and in addressing microcredit issues in the Financial Sector Assessment Program.

Other Issues

15. The Committee welcomes the rapid progress on the inclusion of collective action clauses in international sovereign bonds, and the efforts by emerging market issuers and private sector creditors to broaden the consensus on the "Principles for Stable Capital Flows and Fair Debt Restructuring in Emerging Markets." The Committee looks forward to further work on the orderly resolution of financial crises, including the implementation of the IMF's lending into arrears policy.
16. The Committee calls for continued actions by all countries to develop strong programs on anti-money laundering and combating the financing of terrorism (AML/CFT). The Committee supports the IMF's efforts to implement its intensified AML/CFT work program, and notes the critical importance of supporting countries' efforts with well-targeted and coordinated technical assistance.
17. The Committee recommends members' acceptance of the Fourth Amendment of the Articles of Agreement. The Committee reiterates that the IMF's effectiveness and credibility as a cooperative institution must be safeguarded and further enhanced. Adequate voice and participation by all members should be assured, and the distribution of quotas should reflect developments in the world economy. The Thirteenth General Review of Quotas presents an opportunity to address the issue, and we look forward to progress on this issue and a report back at our next meeting.
18. The Committee looks forward to continued high-quality reports by the Independent Evaluation Office (IEO) under the leadership of its new Director, Thomas Bernes, and to the upcoming external evaluation of the IEO.
19. The Committee paid tribute to Alan Greenspan, in his last meeting of the IMFC, for his outstanding leadership of the Federal Reserve and his unprecedented and much valued contribution to the Committee's work over the last eighteen years.
20. The next meeting of the IMFC will be held in Washington, D.C. on April 22, 2006.

Annex 6

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

Washington, D.C.
April 17, 2005

1. As we approach the fifth anniversary of the U.N. Millennium Declaration, we met to review progress towards the MDGs[1], based on an assessment in the second annual Global Monitoring Report. We reaffirmed our strong support for the strategies and decisions agreed in Doha, Monterrey and Johannesburg which set out a framework for fighting poverty and achieving the internationally agreed goals. We welcome the continued active involvement of the Bank and the Fund in the preparations for and the proceedings at the UNGA Special Session on Financing for Development, as well as the UN High-Level Millennium Review in New York in September.
2. We welcomed the progress achieved, on actions both by developing and developed countries. These actions have contributed to the strongest global economic growth in over three decades. However, overall progress has been uneven and slower than envisaged. Without tangible action to accelerate efforts, the vision of the Millennium Declaration will not be realized. At stake are prospects not only for hundreds of millions of people to escape poverty, disease, illiteracy, and gender inequality but also for long-term global security and peace, which are intimately linked to development.
3. All regions face significant challenges, but we welcomed the Report's focus on sub-Saharan Africa as the region farthest from achieving the MDGs. We also welcomed the recent Report of the Commission for Africa. We are encouraged that real growth in sub-Saharan Africa increased in 2004 to an eight-year high of 5 percent and inflation has fallen to an historical low. The challenge is to accelerate and sustain growth and development through sound policy frameworks .We welcomed the IFC's Strategic Initiative for Africa, including the recently approved Private Enterprise Partnership Facility. We call upon the Bank to undertake further analytical and institutional work, together with partners, to develop an ambitious action plan for Africa for consideration by our next meeting.
4. Many developing countries are taking actions to strengthen policies and institutions which not only provide benefits but also valuable experience for others. We endorsed the emphasis on country-led and owned development strategies and urged that MDGs be operationalized in poverty reduction strategies, linked to medium term budgetary frameworks. Macroeconomic stability remains critical, as is the need to strengthen public sector financial management, promote good governance

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

including combating corruption and promoting the rule of law, improve business climate and regulation and develop local financial markets, so as to enable private sector led economic growth. Environmental sustainability remains critical and should also be addressed in domestic policies and programs, as well as through international action. We recognize the importance of all countries integrating climate concerns into their policy planning.

5. A major scaling up of education (in particular through the Education For All Fast Track Initiative), health and basic infrastructure services, including water and sanitation, is fundamental to meeting key development goals. We noted with concern the failure to meet the target date for achieving gender parity in primary and secondary education. We called upon bilateral donors and multilateral agencies to provide timely, predictable and sustained financing to support these efforts. We reconfirmed the importance of efforts to help developing countries build capacity and address absorptive capacity constraints.
6. We have in the past highlighted the critical importance of scaling up infrastructure investment in developing countries as a means of promoting economic growth and achieving the MDGs, and have endorsed the Infrastructure Action Plan of the World Bank. With a view to removing such impediments as may exist in enabling the Bank to scale up the infrastructure work, we look forward to reviewing implementation of the Action Plan at our next meeting, including the results of the ongoing work of the IMF and Bank on how to increase fiscal space for growth.
7. To complement these actions, developed countries must meet their commitments to help accelerate progress. We underlined the vital importance of an ambitious outcome for the Doha Development Agenda and the successful completion of the negotiations in 2006. Improving trade opportunities and market access for agriculture, industrial products and services will be critical. We stressed the need for “aid for trade” and we call on the Bank and Fund to work with others to develop proposals to help developing countries adjust to and take advantage of the round, for consideration by our next meeting. We also recognized the benefits to developing countries from reducing developing country trade barriers and of strengthening South-South trade.
8. Financing the development agenda remains a significant challenge, requiring sustained action on domestic resource mobilization, private investment and trade. We welcomed the Bank’s work program to improve analysis and statistics on remittances, labor mobility and migration, and to address impediments to remittance flows. We emphasized that a significant increase in aid will also be needed for accelerated progress towards the MDGs. We welcomed the successful conclusion of the IDA 14 replenishment as an important step in mobilizing additional resources and called on donors to finalize their commitments. We noted the further work on the impact of exogenous shocks on low-income countries and small vulnerable states and we look forward to further proposals in the context of the IDA14 mid-term review on what options are available to operationalize these proposals.

9. We also welcomed the agreement by the Bank and Fund on a joint forward-looking framework for assessing debt sustainability in low-income countries. We welcomed recent proposals for additional debt and debt service relief. We agreed that further debt relief beyond HIPC is needed in specific cases to secure long term debt sustainability and support progress towards the MDGs. We ask the Bank and Fund to examine these proposals for the Annual Meetings.
10. We confirmed our commitment to deliver on the pledges made at and after Monterrey to raise levels of ODA. We urged those donors that have not done so to make concrete efforts towards the target of 0.7 percent of GNI as ODA.
11. We welcomed further work on innovative sources of development financing. We noted that negotiations among interested parties on the proposed pilot IFF for Immunization are well advanced; and the analysis of technical feasibility of the IFF has created the conditions for the necessary political decisions on participation. We encourage interested donors to proceed with these proposals. Potential participants believe that global tax mechanisms to finance development may be feasible and desirable, while other members do not. We noted the analysis of the economic rationale, technical feasibility, and moderate coalition size needed for some of the global tax proposals. Building upon the existing political momentum in some countries, we invite the Bank and the Fund to deepen their analysis of the most promising nationally applied and internationally coordinated taxes for development for the Annual Meetings, as an input into the consideration of a pilot case for interested countries.
12. We also underlined the importance of further action by multilateral development partners, including support for the PRS process in low-income countries, aligning assistance better with medium-term country strategies, streamlining conditionality, building institutional capacity and strengthening the focus on development results. We called for further exploration of blending arrangements, for further action to enhance effectiveness and for continued progress in providing innovative and flexible financial products and high quality technical assistance and advisory services better matched to the evolving and diverse needs of middle-income countries; and to strengthen the Bank's role in these countries, not least with regard to global public goods.
13. We welcomed the Paris Declaration on Aid Effectiveness which responded to our earlier call to make firm commitments on the quality of aid. We note the agreement on quantitative indicators. We urged the establishment of targets, as agreed, for each of the indicators for 2010. Concerted collective actions will be required now to translate these into concrete actions at the country level and we called on the Bank to show leadership by example, in implementing the Paris framework. We welcomed the increasing use of country systems, where appropriate, as a means to enhance harmonization and reduce the cost of doing business.

14. Enhancing voice and participation of developing and transition countries in the Bank and the Fund remains a continuing concern. Progress can only be made through broad consensus at the political level. We noted the further efforts by the Boards in this regard and will return to this issue at our next meeting in the light of progress.
15. We appreciate the efforts of the global community to counter the effects of the deadly tsunamis that wreaked havoc in the Indian Ocean region. The tragedy reminded us that the poorest people tend to be the most vulnerable to natural disasters. We called for a continued focus on the challenge of accelerating the reconstruction and recovery process in the region, restoring livelihoods and on designing projects for disaster preparedness and risk mitigation.
16. A strong and effective multilateral system is essential in the fight against global poverty. We expressed our deep appreciation for the talented leadership of Jim Wolfensohn as he approaches the end of his term at the Bank and wish him success in his new role as Special Envoy for Gaza Disengagement. We also congratulate Paul Wolfowitz on his selection as President and look forward to working with him.
17. The next meeting of the Committee will be held in Washington D.C. on September 24, 2005.

Washington, D.C.
September 25, 2005

1. We met against the background of a series of major meetings in this "Year of Development," in particular the United Nations 2005 World Summit held in New York on September 14-16. These meetings, including the G8 Summit held in Gleneagles in July, have resulted in significant progress in building and deepening consensus on key elements of the development agenda. In our discussions we focused on implementation and priorities for action.
2. We reiterated our support for the realization of the internationally agreed development goals, including the Millennium Development Goals (MDGs), and recognized that this calls for a stronger international development partnership. We are encouraged by commitments to reinvigorate the aid partnership, with stronger policies in many developing countries matched by commitments by developed countries and other donors for significant additional aid and debt relief and steps to improve development effectiveness. We reaffirmed the importance of sound policies, including promoting a strong private sector and improving governance, in developing countries to the achievement of the development goals. In this connection, we emphasized the importance of expanding opportunities for those who have the least voice and the fewest resources and capabilities. We welcomed the increased resources that will become available as a result of the recent establishment of timetables by many donors to achieve the target of 0.7 percent of GNP for ODA.

We commended donors who have already reached or exceeded this target. As called for by world leaders at the recent UN Summit, we urged those developed countries that have not yet done so to make concrete efforts in this regard in accordance with their commitments. We noted the launch of the International Finance Facility for immunization and the upcoming implementation of an airline ticket solidarity tax by a group of countries. We called on the Bank to assist with implementation issues, as appropriate, to ensure that these initiatives are coherent with the overall performance- and country-based aid architecture. We also noted ongoing work on blending arrangements and advance market commitments for vaccines.

3. As important as mobilizing more aid is action to improve the quality of aid. We welcomed progress toward establishing tangible indicators and targets for commitments made in the Paris Declaration on Aid Effectiveness. We asked the Bank to work closely with the OECD Development Assistance Committee and other partners to support the delivery and improve the quality of increased assistance, through systematic monitoring and follow-up on aid commitments, and through vigorous implementation of the agreed agenda on managing for results, harmonization, and alignment.
4. We welcomed the World Bank Group's ambitious Africa Action Plan, which will support African countries in their efforts to increase growth, tackle poverty, and achieve the MDGs. We called for timely and vigorous implementation of the Plan and urged that the Bank work closely with the African Union, New Partnership for Africa's Development, African Development Bank, African Partnership Forum and other partners. We commended the Plan's results-oriented approach and the concrete actions it proposes to ensure that increased aid will be used effectively. The Action Plan correctly focuses on building state capacity and improving governance; strengthening the drivers of growth; and promoting broad participation in growth and sharing its benefits. We commended its comprehensive approach toward developing an African private sector, creating jobs, enhancing exports, expanding infrastructure, raising agricultural productivity, strengthening human development, building capacity (including in conflict-affected and fragile states), and increasing regional integration. Related areas we emphasized include strengthening the implementation of Education for All Fast Track Initiative, including closing of the financing gap; stepping up the fight against major diseases including HIV/AIDS and malaria; promoting women's role in development; and improving the environment for small and medium enterprises, including access to microfinance. We called for further analysis and elaboration of proposed new mechanisms to scale up and strategically target aid to countries and programs with potentially high development impact, which are complementary to and consistent with IDA framework. We also welcomed the Plan's emphasis on partnerships, monitoring and evaluation, and consultative mechanisms, including reporting back to the Committee on progress on a regular basis in the context of the Global Monitoring Report, starting in 2007.

5. We welcomed the G8 proposal for 100 percent cancellation of debt owed by eligible heavily indebted poor countries (HIPCs) to the International Development Association (IDA), the African Development Fund (AfDF), and the International Monetary Fund, as providing a valuable opportunity to reduce debt and increase resources for achieving the MDGs. In order to expedite the implementation of the proposal, we agreed on the need for an interdependent package consisting especially of dollar for dollar compensation for IDA that is truly additional to existing commitments and that maintains the financial integrity and capacity of IDA to assist poor countries in the future. We are agreed on the need for additionality of donor resources for debt relief to provide tangible benefits to HIPCs. We are confident that the package, including financing, the main technical features of the proposal and burden sharing on a voluntary basis will provide these benefits. We emphasized the importance of maintaining sound economic performance and good governance by eligible countries. We urged donor countries to ensure financing to fully compensate IDA for forgone reflows resulting from debt relief in order to reach a final agreement on the proposal. We welcomed the delivery commitments by the G8 in their letter to the World Bank President. We asked the Bank to prepare a compensation schedule and monitoring system of all donor contributions urgently. On this basis we expressed our support for the aforementioned package and urged the Bank to proceed with the steps to ensure all necessary arrangements for implementation.
6. We also reviewed the implementation of the HIPC Initiative, welcomed continued progress in providing debt relief to HIPCs, noted the need to fill the current funding gap, and urged full creditor participation. We continue to underline the importance of the existing agreement that contributions under the HIPC Initiative be additional to other contributions to IDA. Eighteen countries have reached the completion point and another ten are between decision and completion points. We look forward to a final list of eligible countries in early 2006.
7. Stronger country policies and more and more effective aid must be complemented with ambitious moves to increase openness and market access and to ensure that trade benefits the poor. Without a timely and ambitious outcome for the Doha Development Agenda, developing countries will not achieve the economic growth needed to meet the MDGs. As we approach the crucial Hong Kong Ministerial meeting, which will be an important milestone toward concluding the Doha Round in 2006, now is the time for action by all WTO members to move the negotiations forward, and we called upon developed countries to show leadership. We cannot overemphasize the importance for the global economy and for meeting the MDGs of achieving an outcome that includes: (i) a major reform of agricultural trade policies to expand market access and eliminate trade-distorting subsidies; (ii) action to open markets in manufactures and services; and (iii) increased aid for trade to address supply-side constraints and enhance the capacity of developing countries to take advantage of expanded trade opportunities. We endorsed the proposal for an enhanced

Integrated Framework for Trade-related Technical Assistance, including expanding its resources and scope and making it more effective. We asked the Bank and the Fund to examine further the adequacy of existing mechanisms to address regional or cross-country aid for trade needs and explore new mechanisms as appropriate. We supported a strengthened framework for assessing adjustment needs so that IFI and donor assistance mechanisms can be better utilized. We urged the Bank and the Fund to better integrate trade-related needs into their support for country programs. We also asked the Bank and the Fund to continue their global advocacy role on trade and development.

8. Scaling up investment in infrastructure, alongside strong programs for education and health, is key to faster growth and progress in reducing poverty. We welcomed the progress made by the Bank Group in implementing the Infrastructure Action Plan and strengthening public-private partnerships to leverage investment and maximize impact, including in the framework of the newly established Africa Infrastructure Consortium. We called for continued deepening and scaling up of support for infrastructure service delivery, and removal of impediments in this regard, in order to respond to needs in both low- and middle-income countries. As part of this effort, we look forward to a progress report at our next meeting by the Bank on the impact of fiscal space on growth and achievement of the MDGs, in continued cooperation with the Fund on the macroeconomic aspects of this issue.
9. We welcomed the review of World Bank conditionality and endorsed the good practice principles the Bank has put forward to streamline conditionality and strengthen country ownership and leadership. We called for regular monitoring to ensure their consistent implementation at the country level and for a report on progress next year. We also welcomed the work on enhancing IMF instruments in support of its low-income members, and called for further strengthening Bank-Fund collaboration in this area.
10. We welcomed the joint Bank-Fund review of the poverty reduction strategy approach and noted the contribution the PRS approach is making to enhancing country leadership of the development agenda, promoting the articulation of clear and coherent country policies and priorities for spurring growth and reducing poverty, improving budget and monitoring systems, and sharpening the focus on development results. We noted that country ownership based on broad participation is now central to the PRS approach. We also noted the value of country-led diagnostics including poverty and social impact analysis in supporting the PRS approach. Good progress notwithstanding, continued efforts are needed to strengthen poverty reduction strategies and their implementation in many countries. This includes efforts by countries to improve policies, domestic resource mobilization, governance, and accountability and by donors to provide support in a predictable, aligned, and harmonized manner.

11. We support the World Bank's efforts, including through the Global Environment Facility, to assist member countries in measures to mitigate and adapt to the impact of climate change and improve energy efficiency and access to renewable and cost-effective energy; and welcomed efforts to follow up on the Gleneagles plan of action with early consultations to identify pragmatic investment and financing policy actions that can help further the goals of the United Nations Framework Convention on Climate Change. We look forward to a report for our next meeting on progress made in developing dialogue with partner countries and institutions and a future investment framework.
12. The Committee considers the issue of enhancing the voice of developing and transition countries in our institutions to be of vital importance. We will continue our discussions with a view to building the necessary political consensus on this matter, taking into account progress in the context of the IMF quota review.
13. The Committee expressed its appreciation to Mr. Trevor Manuel, Minister of Finance of South Africa, for his valuable leadership and guidance as Chairman of the Committee during the past four years, and welcomed his successor, Mr. Alberto Carrasquilla, Minister of Finance and Public Credit of Colombia. We expressed our gratitude to James Wolfensohn for his outstanding leadership of the World Bank Group during the last 10 years, and welcomed the new President of the World Bank, Paul Wolfowitz, who attended his first meeting of the Development Committee, and wished him a successful tenure. The Ministers also expressed their warm thanks to Mr. Thomas Bernes upon conclusion of his tenure as the Committee's Executive Secretary.
14. The Committee's next meeting is scheduled for April 23, 2006, in Washington, D.C.