
Canada at the World Bank and IMF: time for a systematic review of our involvement and our role

Background

Canada's better-aid bill, Bill C-293, is in its final review before the Senate. If passed, this bill will ensure that Canada's aid budget is used to help eradicate poverty and promote human rights. It will also increase the level of reporting to Parliamentarians on how aid money is spent. This includes better reporting for the CDN\$318.27 million in 2006/07 of Canada's aid budget that goes to the World Bank. If passed, this will be a constructive step forward. If an election intervenes, the bill will likely be reintroduced in the new parliament.

Finance Canada's changes to its Annual Report to Parliament on the Bretton Woods Institutions (World Bank and International Monetary Fund (IMF)) are also welcome. However, the report fails to identify two things: (1) Canada's long-term strategy, goals and objectives at these institutions, and (2) how our involvement helps contribute to a development agenda driven by poverty eradication and the promotion of human rights. This is particularly worrisome in light of independent studies—and evidence from partners in developing countries—that question the ability of the Bank and the IMF to meet these goals. It is time for a systematic review of Canada's record at these institutions and for tools to enhance the government's accountability and transparency at the Bank and IMF.

Crisis at the IMF and World Bank

Fund in Financial crisis

Over the past two years, seven countries have repaid almost \$35.5 billion in debts ahead of schedule. The IMF has lost revenue in interest payments due to these early repayments and is therefore facing a US\$103 million shortfall in fiscal 2007 and a US\$369 million shortfall for 2010. Since 2005, many countries have said they will not borrow again from the IMF because of austerity policies that the IMF imposes as conditions for its loans. These conditions have led Bank of England Governor Mervyn King to note that the IMF needs radical structural reforms before it slips into "obscurity".

Democratic deficit

The package of reforms being proposed by the IMF will make only marginal changes to the current distribution of votes (based on the size of a country's economy), and do little or nothing to strengthen the voices of the poorest countries. Africa's 53 countries has only two Executive Directors on a Board of 25 and only 4.5% of the vote.

Austere and disruptive conditions

In December 2006, the World Bank's internal auditor, the Independent Evaluation Group, determined that the Bank has failed to increase incomes over the past decade for tens of millions of people in many poor countries. This has been aggravated by decades of external debt in the poorest countries that diverts much-needed resources from social spending. Between 1970 and 2002, for example, Africa received \$540 billion in loans, paid back \$550 billion in interest and principal, and still owed almost \$300 billion.

Debt problems aside, the situation is dire. In 2005, following the 2005 Gleneagles multilateral debt relief initiative, Zambia announced it would allocate 30% of its annual budget to social spending by abolishing medical user fees and recruit 800 medical personnel and 4,000 teachers. Seventy-one percent of the national budget is now financed domestically. However, a recent study by the UN Development Program determined that IMF conditions linked to debt relief are still limiting government expenditures for poverty reduction, and "...the net fiscal gain from debt relief has been marginal because of the external policy conditionalities linked to the relief."

How long before the Bank and IMF "get it right"?

While both the Bank and IMF have shifted away from privatization and trade liberalization conditions, an independent study conducted for the Norwegian government found an increase in governance conditions. Improved governance, rooted in democratic participation of citizens, is key to improving the social and economic development of countries. But governance cannot be imposed from the outside through conditions. The emphasis on governance ironically comes as domestic parliaments—essential to governance—remain largely excluded from most policy discussions with donors. Meanwhile donor countries, the Bank and IMF are imposing new conditions, while underscoring the notion of 'country ownership'.

Donors like Canada are stressing the need for evidence-based policy-making. Yet an internal audit released in 2006 by 25 independent academics assessed Bank research from 1998-2005. It found that while the Bank produces some "outstanding work", almost two-fifths of this research is simply used to "proselytize" Bank policies. Furthermore, "internal research that was favourable to Bank positions was given great prominence and unfavourable research ignored."

The World Bank, the IMF and the Government of Canada

The World Bank and IMF are extremely important institutions. Canada has an Executive Director on each 25-member Board and therefore has a key role to play. The fact remains that the legitimacy and relevance of these institutions is being called into question not only by civil society organizations, but also by member countries themselves. Parliamentarians must understand that these institutions are in a state of crisis, and must determine how the government can best respond to such complex and urgent issues.

Unfortunately, the annual report gives Parliamentarians little sense of any of these issues. There is still no regular venue for involving Parliamentarians on issues related to the Bank and IMF. No Canadian Executive Director has appeared before a Commons Committee since the last hearing in 1995. The Finance Minister has never briefed the relevant Committees on government positions on Bank and IMF issues.

Recommended action

The Standing Committee on Foreign Affairs and International Development should undertake a systematic review of Canada's policies at the World Bank and IMF. This is an opportunity to increase parliamentary accountability and transparency over the government's actions at the Bank and IMF.



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