

The Canadian Government, the World Bank and the International Monetary Fund:

A REPORT CARD on FINANCE CANADA'S 2006 ANNUAL REPORT to PARLIAMENT

Every year at the end of March,ⁱ the Minister of Finance tables the "Report on Operations under the Bretton Woods and Related Agreements Act". The Bretton Woods Conference in 1944 established the World Bankⁱⁱ and International Monetary Fund (IMF), and this report details Canadian priorities, commitments and interests over the past fiscal year at these institutions. The annual reports to Parliament are important tools for assessing the government's actions within these institutions relative to its foreign policy and development objectives, and for informing Parliament and the Canadian public about Canadian priorities at these important multilateral fora. Canada is among a number of countries that report to Parliament on their activities at these institutions.ⁱⁱⁱ

The annual reports are also important because, despite sustained efforts to enhance the transparency of the institutions, there is still limited disclosure of IMF and Bank Board discussions. This makes it difficult for Parliamentarians and the public to determine whether government positions in Board discussions are consistent with stated Canadian priorities. These annual reports are also currently the only tool by which Finance Canada regularly informs Parliamentarians about government activities at the Bank and IMF. Yet these reports have never been debated by Parliament, nor by any parliamentary committee. The Canadian Executive Directors to the Bank and Fund have not appeared before a Commons Committee since the last hearing was held in 1995. The Finance Minister has also never briefed the relevant parliamentary committees on government positions regarding Bank and IMF issues prior to attending the institutions' bi-annual meetings. And while two Sub-Committees on International Financial Institutions existed from 1992 to 1997 under Finance and Foreign Affairs, there is currently no regular venue for involving Parliamentarians on issues related to the Bank and IMF.

For the past three years the Halifax Initiative Coalition has produced report cards on the annual reports to Parliament to draw attention to this issue. The report cards evaluate the transparency and accountability of Finance Canada to Parliamentarians. They do not assess the performance of the international financial institutions in these areas. Past report cards have outlined general weaknesses in the annual reports, such as the duplication of content from year to year, and the lack of clarity on Canadian goals and priorities at the institutions. This year's report card evaluates the improvements to the 2006 Annual Report relative to the following:

- best practices;
- recommendations made in previous Halifax Initiative report cards;
- previous annual reports to Parliament; and
- the Auditor General's 1992 review of the annual report.

Overview of this year's report

In general, we are encouraged by the enhanced content and format of this year's annual report. It is a step in the right direction and Finance Canada should be commended for taking this "good faith" initiative.

In terms of format, there are a number of positive changes: the increased focus on, and identification of, Canadian priorities is very welcome; the framing of content around four policy priorities is useful (compared with the long laundry list of issues that were listed separately under Bank and IMF headings in previous reports); the integration of Bank and IMF issues under these four priority headings is also helpful. Finally, the separate section on “Looking ahead” works well, although it is currently a bit disjointed from the priorities section. This could be improved by making the connections with the themes identified under the priorities section more explicit, and the transition to “looking ahead” more logical.

In terms of content, there are also a number of positive changes: the report identifies Canadian priorities both for the institutions and around specific issues; there is occasional (although inconsistent) indication of where Finance would like the institutions to go, hinting at future objectives; there is more financial information, including highlights and key financial indicators for the institutions; and information disaggregated by sector, region and year. That said, despite identifying broad priorities, there is still no clear and systematic indication of corresponding goals, objectives and actions for the coming year. This is a major shortcoming, as the report provides no benchmarks against which to evaluate the Government of Canada’s performance in next year’s report or to register changing objectives.

In general, while the report does shed more light on the Canadian government’s role at these institutions, there is still a lot of hiding in the shadows.

* * * * *

Marking Scheme

- A – Substantial Progress - on par with best practice.
- B – Some Progress - demonstration of “good faith”.
- C – Little Progress - cosmetic changes, nothing of substance added.
- D – No change.

Had we graded previous annual reports from the past five years, they would have earned a “D” grade. Given the “good faith” nature of the current changes, this year’s annual report receives an overall “B-”.

	<p><i>This report card has been developed by the Halifax Initiative Coalition, a Canadian coalition of development, environment, faith-based, human rights, and labour groups. We were formed in December 1994 to ensure that demands for fundamental reform of the international financial institutions (IFIs), namely the World Bank and the International Monetary Fund, were high on the agenda of the Group of Seven’s (G7) summit. We are the Canadian presence for public interest advocacy and education on the IFIs.</i></p>
---	---

Category	Grade	Comments and Recommendations
<p>1. Time-bound, strategic, results-based framework</p>	<p>B</p>	<p>Some promising improvements</p> <p>Expectation: A three or four year institutional strategy paper sets out a framework for Canadian government participation in the World Bank Group (“the Bank”) and International Monetary Fund (IMF). This includes:</p> <ul style="list-style-type: none"> • a clear statement of Canada’s goals at each institution that addresses issues and challenges facing the institution; • clear objectives for realizing these goals; and • a series of qualitative and quantitative performance indicators for measuring progress in achieving these objectives and in evaluating outcomes. <p>The annual report assesses the outcomes of the Canadian government’s role at the Bank and IMF against these goals and objectives, and identifies emerging challenges.</p> <p>This approach could form part of the government’s comprehensive strategy on improving aid effectiveness, as outlined in Budget 2007.</p> <p>Example: The British Department for International Development (DfID) is the government department responsible for the Bank. Since 2000, it has produced an institutional strategy paper (ISP) every four years laying out its broad goals and objectives with respect to the Bank^{iv}. Since 2004, DfID has also developed a set of “indicators of success” for each of its objectives.^v</p> <p>To illustrate this example in more concrete terms, DfID’s mission is to contribute to sustainable development and the eradication of poverty. In its 2004 institutional strategy paper for the Bank, it set out the following goal, objective and indicators to help it achieve this mission:</p> <ul style="list-style-type: none"> → <u>Goal:</u> Maximise the Bank’s effectiveness by focusing on results; → <u>Objective 1:</u> Monitor and support the deepening and full implementation of the Bank’s results-based system; → <u>Sample indicators:</u> Production of new guidance on results-based Country Assistance Strategy by end of FY05; all new Bank initiative to include an explicit assessment of how they will contribute to the MDGs; development of results reporting system at country level by end FY06. <p>The UK also publishes its objectives for the Bank and IMF Spring and Annual Meetings and for the negotiations to replenish the International Development Association (IDA).^{vi} For the latter, DfID evaluates its progress against these objectives.</p> <p>Analysis of 2006 Report: It is reasonable to expect a clear statement of the goals and objectives of Canada’s participation in</p>

		<p>these institutions and measurable indicators to allow Parliamentarians and the Canadian public to objectively evaluate the results of this participation. Reporting against a set of indicators allows for consistency, provides comparable measures of change and helps identify challenges.</p> <p>This report makes progress in more clearly indicating Canada's overarching priorities both at the institutions and on various issues. Identifying clear priorities now should allow for greater consistency in reporting in future years. The report does well to begin defining each of the priorities, even if at times the inclusion of certain issues under certain priorities does not necessarily flow logically from the definition. For example, IMF governance reform is included under "Reforming the IMF to strengthen the International Financial System" rather than "Improving governance and accountability". Similarly, under "Promoting Sustainable Development", the report uses a definition more geared towards the environment, but goes on to talk about private sector development and debt relief. Strangely, while this section also covers the environment, it fails to report on some of the objectives indicated in the Department of Finance Canada's own "<i>Sustainable Development Strategy</i>" at the IFIs.^{vii}</p> <p>The report also gives some indication of where the Canadian government would like to see the institutions move on certain issues. This is particularly true in the section on the Bank's anti-corruption and good governance policy, the International Finance Corporation's performance standards, on conditionality, IMF/Bank collaboration and in the "Looking Ahead" section on IMF Reform and the next International Development Association replenishment. While this improvement is to be lauded, in the absence of an ISP, the report could be more systematic in indicating Canada's position on a broader range of issues in advance of decisions and discussions. This will help Parliamentarians evaluate progress in meeting Canadian objectives in future reports. As is, most of the priorities identified tend to reflect Canada's position on decisions already made.</p>
<p>2. Content and quality of narrative reporting</p>	<p>C</p>	<p><i>Somewhat disappointing</i></p> <p>Expectation: Detailed and balanced perspectives on key issues facing both institutions that clearly characterize the principal debates, challenges and proposed solutions, in particular for controversial issues or projects. This may help provide some context for explaining Canadian positions, or changing goals and objectives (See 4.)</p> <p>Example: In the United Kingdom, DfID uses its annual report to Parliament to review and evaluate progress (positive and negative) against the goals and objectives outlined in its institutional strategy paper (see above). The report also describes controversial projects</p>

		<p>funded by the Bank and actions taken by the government to address the issues raised. It indicates how the UK voted on resolutions that were considered during the reporting period.</p> <p>Analysis of 2006 Report: Previous analysis has found that the Annual Reports are less an assessment and summary of Canada's participation in the institutions, than a general and broad-ranging overview of operations at the institutions themselves. The Reports are descriptive rather than analytical in nature.</p> <p>The current report has gone one step further from previous reports by focusing on a select group of issues under discussion at the institutions over the past year. It also elaborates more on Canada's voting record at the institutions than in previous years. However, with a few exceptions (IMF Finances and Reform) it still largely fails to properly characterize key debates and challenges at the institutions, and Canada's role in addressing these challenges. For example, while the Report carefully highlights the internal checks and balances within the Bank and IMF in the section on "Governance and accountability", it fails to mention the findings of any of the internal and external audits on these institutions, their recommendations, the response of the institutions, or the impact of these processes on Canadian goals and objectives. Similarly, the section on debt highlights the Canadian debt relief initiative (sunsetting in 2005), and the Multilateral Debt Relief Initiative (MDRI) (of prominence in 2005), but makes no mention of the controversial discussions in 2006 around the modalities for implementing the MDRI.</p>
<p>3. Content and quality of financial reporting</p>	<p>B+</p>	<p>Getting better, analysis still wanting</p> <p>Expectation: Figures to situate Canada's multilateral financial contributions in the context of its Official Development Assistance (ODA); financial information indicating where Canada's aid program is collaborating with the Bank and other donors in budget support programs; Canada's financial contributions to IMF special funds or Bank administered trust funds; IDA allocation specifics; procurement statistics and analysis of benefits to the Canadian private sector; an analysis of critical financial issues at both the Bank and IMF, and their impact on the institutions and on changing Canadian priorities; an analysis of the financial implications and risks posed to both the institutions and their member countries, including Canada, from continued lending to countries in excess of their quota or those that are in significant arrears.</p> <p>Analysis of 2006 Report: The government should be comprehensive in its financial reporting, particularly given Parliamentary demands for greater accounting for its use of aid dollars. Financial accountability involves clear, complete, accurate and timely reporting on the use of resources entrusted to government as well as an analysis of how resource use fulfils</p>

		<p>government objectives. This is also a standard requirement of most Finance Canada Reports on Plans and Priorities with respect to participation in International Financial Organizations. Assessing the financial risks to Canada of its participation in the Bretton Woods Institutions was also part of the original recommendations in the 1992 audit of the Annual Report.^{viii}</p> <p>Financial information in these annual reports continues to improve. It is more detailed, better organized and more readily accessible. Highlights include the following:</p> <ul style="list-style-type: none"> • an overview of both IMF and Bank financing activities, some trends and challenges; • multi-year shifts; • financial information aggregated by region and sector; • a combined overview of Canadian government support, including to trust funds; and, • the addition of operational highlights and key financial indicators for both the Bank and IMF. <p>That said, much of this financial information still lacks analysis.</p>
<p>4. Identification of Canadian government activities, outputs and outcomes</p>	<p>B-</p>	<p>Little sense of what Canada did to realize its priorities</p> <p>Expectation: Positions taken by Canadian Executive Directors on broad Bank and IMF policy initiatives and issues should be reported in a clear and transparent manner; actions taken to advance Canada’s position should be clearly highlighted, along with an indication of the measure of success achieved in advancing its position; and the final outcome of board discussions and decisions should be made clear relative to the Canadian position.</p> <p>Example: In the 2005 annual report on the Bank^{ix}, the British Department for International Development (DfID) provides details on the 14th replenishment of the International Development Association, which was concluded in 2005. The report lays out the purpose of the replenishment, the major agreements reached during discussions, British objectives for the discussions, progress achieved, objectives not achieved, and UK contributions to the replenishment.</p> <p>Analysis of 2006 Report: The Report has taken some positive steps forward in more clearly indicating Canada’s position and priorities at the institutions on various issues (see 1. above). However, it is still very difficult to determine what action the government of Canada has taken to realize its priorities beyond various statements calling for changes or financial contributions made to special Bank and IMF facilities. Claims, therefore, that Canada is “active”, “at the forefront”, and “tak[ing] a leadership role” aren’t convincingly supported. Even on the IMF reform agenda, where the report highlights the lead role Canada has played and the actions it has taken, the evidence is insufficient to substantiate this claim.</p>

		<p>Finally, the Annual Report generally presents Canada's positions and priorities on issues for which decisions have already been made at the Bank and IMF. In such cases, greater information and analysis should be provided regarding the details of Canada's position, actions taken by Canada to advance its position, the decision taken by the Bank and IMF and the degree to which the outcome reflected Canada's position. As mentioned in 1, Canada should also divulge its position on issues that are under discussion and for which decisions are forthcoming.</p>
<p>4. Evaluation of Canadian participation at the Bank and IMF</p>	<p>C</p>	<p>Assertions without assessment</p> <p>Definition: Information about the results and benefits to Canada of participation in the IFIs; periodic evaluation of the government's institutional strategy with respect to the international financial institutions (priorities, objectives, successes, challenges, emerging issues) that would help inform the subsequent strategy and government priorities; evaluation of the effectiveness of Canadian government participation at the Bank and IMF against our international development priorities and goals, including analysis of the qualitative and quantitative results of Bank and IMF programs and of how Canada's development priorities and objectives in developing countries are being achieved; periodic review by the Auditor General's office.</p> <p>Example: The objectives of DfID's institutional strategy paper (ISP) on the Bank emerge from an evaluation by the UK agency of various challenges or shortfalls facing the Bank. Prior to the development of a new strategy paper, and every three to four years, DfID conducts an "end of cycle" review to evaluate existing goals and objectives^x, and to assess the outcomes (including where it fell short of meeting its objectives). This provides the basis for a consultation with interested stakeholders on the next ISP.</p> <p>DfID has also developed a separate Multilateral Effectiveness Framework (MEFF)^{xi} to assess the effectiveness of its engagement with the international agencies to which it provides central funding.</p> <p>In December 2005, the National Audit Office conducted an audit of both the government's ISP and its MEFF.^{xii}</p> <p>Analysis of 2006 Report: As with past reports, the current report, does provide some sense of the general benefits to Canada of participating in the Bretton Woods Institutions, such as providing Canada with a voice on issues related to the development of the international financial architecture, access to the institution's research and policy work, significant procurement opportunities for Canadian companies, and greater influence over developing countries than can be achieved through bilateral programs. However, none of these benefits are clearly demonstrated through the use of quantitative evaluations. There is no assessment</p>

	<p>regarding the effectiveness of pursuing our international development priorities through the Bank and IMF, as opposed to other avenues. There is also little evaluation of existing priorities. More readily integrating the “Looking Ahead” section with the “Policy Priorities” section might go some way towards remedying this latter point. Currently, it is not entirely clear in the “Looking Ahead” section how “IMF reform”, “Financing the IMF”, “IDA replenishment” and “Ending the ‘lend-and-forgive’ cycle” flow from the objectives and four priorities highlighted earlier.</p> <p>Finally, it should be noted that the most recent (public) reviews of Canada’s participation at the Bank and IMF were carried out by the Auditor General in 1992 and by the Standing Committee on Foreign Affairs and International Trade in 1995. Ironically, the 1992 Auditor General’s report suggests a legislative requirement to periodically evaluate Canada’s participation in these institutions, no less than <u>every ten years</u>. “This would provide an impetus to assess the value of Canada’s membership, and foster a results-oriented attitude toward participation. It would also focus attention on the relevance of these institutions.”^{xiii} It has now been twelve years and these recommendations remain relevant today.</p>
--	---

* * *

Endnotes

ⁱ The Bretton Woods and Related Agreements Act authorizes Canada’s participation in the World Bank Group and International Monetary Fund. Under Section 13 of the Act, the Minister of Finance must table a report to Parliament on or before March 31, or on any of the first thirty days after Parliament is back in session. This year the report was tabled on March 30, 2007.

ⁱⁱ The 1944 Bretton Woods Conference actually established the International Monetary Fund and International Bank for Reconstruction and Development (IBRD), otherwise known as the World Bank. Today the World Bank Group is comprised of IBRD, the International Development Association, the International Finance Corporation, the Multilateral Investment Guarantee Agency and the International Centre for Settlement of Investment Disputes.

ⁱⁱⁱ Australia, Belgium, Finland, France, Germany (just on the World Bank), Italy, Ireland, Japan (through separate reports from different Departments), Norway, Sweden and the United Kingdom all produce annual BWI reports.

^{iv} Department for International Development (DfID), *Institutional Strategy Paper: Working in Partnership with the World Bank*, 2004, on-line at <http://www.dfid.gov.uk/pubs/files/ispworldbank2.pdf>

^v DfID, *World Bank Institutional Strategy: Indicators for Success*, 2004, on-line at <http://www.dfid.gov.uk/pubs/files/ispworldbank-indicators.pdf>

^{vi} For details of objectives with respect to the last replenishment see <http://www.dfid.gov.uk/news/files/ida14.pdf>

^{vii} This includes assessing IDA supported programs and projects against long-term environmental and social sustainability goals in the IDA mid-term review that took place in November 2006, and “ensuring that the International Finance Corporation’s new Policy on Social and Environmental Sustainability, approved at the World Bank’s Executive Board in early 2006, is adhered to on a project-by-project basis”. Federal Sustainable Development Strategy, Finance Canada 2007-2009, http://www.fin.gc.ca/susdev/sds2007_1e.html#4.4

^{viii} More complete, understandable and usable information on the objectives and results of Canada’s participation, and the associated financial risks is needed[...].” §12.86, *Participation in the Bretton Woods Institutions and the European Bank for Reconstruction and Development, Report to the Auditor General, 1992*.

^{ix} DfID’s Annual Report is available at <http://www.dfid.gov.uk/pubs/files/uk-worldbank-2005.pdf>

^x DfID, *Institutional Strategy Paper for the World Bank Group: End of Cycle Review*, 2004, on-line at <http://www.dfid.gov.uk/pubs/files/ispworldbank-review.pdf>

^{xi} Scott, Alison (DfID), *DfID’s Assessment of Multilateral Effectiveness – An Overview of Results*, 28 February 2005, <http://www.dfid.gov.uk/pubs/files/meff-results.pdf>

^{xii} National Audit Office, *Engaging With Multilaterals*, December 2005, http://www.nao.org.uk/publications/DFID_multilaterals.pdf

^{xiii} Para 12.54, *Department of Finance – Participation in the Bretton Woods Institutions and in the European Bank for Reconstruction and Development, Report of the Auditor General, 1992*.