

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

## **A REPORT CARD on FINANCE CANADA'S 2007 ANNUAL REPORT to PARLIAMENT**

Every year at the end of March,<sup>i</sup> 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 Bank<sup>ii</sup> and International Monetary Fund (IMF). The annual report details Canadian priorities, commitments and interests over the past fiscal year at these institutions. The annual report to Parliament is an important tool 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.<sup>iii</sup>

The annual report is also important because, despite sustained calls for improved transparency at 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 the government positions that are put forth in Board discussions are consistent with stated Canadian priorities. The annual report, then, is 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 the Finance and Foreign Affairs' Standing Committees, there is currently no regular venue for involving parliamentarians on issues related to the Bank and IMF.

Since 1995, the Halifax Initiative has produced report cards on the annual report to Parliament. These 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 or the government's positions on specific issues. Now that greater information is available on the latter, the Halifax Initiative will provide a separate critique on this content.

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, like last year's, evaluates the improvements in the 2007 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, the 2007 Annual Report marks a substantial improvement over the 2005 and 2006 annual reports, both in format and in particular, in content.

In terms of format, there are a number of positive changes: the organization of the report into three distinct sections (a comprehensive introduction to the institutions and Canada's place within them, an overview of Canadian priorities and actions in 2007, and Canadian medium-term priorities looking forward) is much more logical than previous iterations of the report; situating Canadian policy priorities and actions for both institutions within three core principles establishes a useful framework for reporting on government actions over the past year and in its activities looking forward; and the report also does well to identify those objectives that apply to both institutions and to include these in common sections (for example, on governance reform, sound finances and transparency). In all, the new medium term framework does a much better job of articulating a more coherent and consistent government strategy for the Bank and Fund.

In terms of content, there are also a number of positive changes: for the first time ever, the report has provided Canadian positions and activities on all the issues it addresses, not just a select few; in the 2007 overview, there are more consistent indications of the directions in which Finance would like the institutions to go, looking forward, on specific issues; these "indications", along with the medium term priorities that provide context, goals, short and medium term actions, give the reader a better sense of the government's forward-looking strategy with respect to the institutions; and, lastly, financial information remains strong, with the welcome addition of disaggregated figures for Canadian contributions to Multi-Donor Trust Funds. While the new medium term framework provides benchmarks against which to evaluate the government's performance in the coming years, next year's annual report would do well to include indicators against which to evaluate, more clearly, success in meeting these goals.

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## 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.

*Annual reports from 2001 – 2005 earned a "D" grade under this scheme. The 2006 annual report received an overall "B-". This year's annual report receives an overall "B+".*



*This report card has been developed by the Halifax Initiative, a Canadian coalition of development, environment, faith-based, human rights, and labour groups. Formed in December 1994 to ensure that demands for fundamental reform of 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 International Financial Institutions.*

Category	Grade	Comments and Recommendations
<p><b>1. Time-bound, strategic, results-based framework</b></p>	<p>A-</p>	<p><b>Significant improvement (cf. 2006 – “B”)</b></p> <p><b>Expectation:</b> 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"> <li>• a clear statement of Canada’s goals at each institution that addresses issues and challenges facing the institution;</li> <li>• clear objectives for realizing these goals; and</li> <li>• a series of qualitative and quantitative performance indicators for measuring progress in achieving these objectives and in evaluating outcomes.</li> </ul> <p>The annual report assesses the outcomes of the Canadian government’s participation 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, per Budget 2007 and 2008.</p> <p><b>Example:</b> 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<sup>iv</sup> as well as a set of “indicators of success” for each of its objectives.<sup>v</sup></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"> <li>➔ <u>Goal:</u> Maximise the Bank’s effectiveness by focusing on results;</li> <li>➔ <u>Objective 1:</u> Monitor and support the deepening and full implementation of the Bank’s results-based system;</li> <li>➔ <u>Sample indicators:</u> Production of new guidance on results-based Country Assistance Strategy by end of FY05; all new Bank initiatives to include an explicit assessment of how they will contribute to the MDGs; development of results reporting system at country level by end FY06.</li> </ul> <p>DfID plans to develop a new ISP in 2008 based on a review of its 2004 strategy.</p> <p>The UK also publishes its objectives for the Bank and IMF Spring and Annual Meetings<sup>vi</sup> and for the negotiations to replenish the International Development Association (IDA).<sup>vii</sup> For the latter, DfID evaluates its progress against these objectives.</p> <p><b>Analysis of 2007 Report:</b> It is reasonable to expect a clear statement</p>

	<p>of the goals and objectives of Canada’s participation in 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 goals, objectives and indicators allows for year-to-year consistency in pursuing policy objectives, helps identify challenges and the need to realign objectives, and provides comparable measures of change and success.</p> <p>The 2007 report makes substantial progress in this vein by laying out, in its third section, a medium-term framework with core principles, corresponding priorities, and short and medium -term actions to indicate how the government proposes to meet its priorities. Consequently, it gives a fairly clear indication of where the government would like to see the institutions move on an array of upcoming issues, as well as presenting current positions and actions on those same issues (in the overview section) from the past year. This creates a logical sequence of policy development that has not been present in previous reports.</p> <p>Compared to the 2006 report, issues are also more logically organized under their respective core principles. For example, “Governance Reform” falls under “Governance and Accountability” rather than “Strengthening the International Financial System”, and “Debt Sustainability” under “Sustainable Poverty Reduction and Growth”, rather than “Promoting Sustainable [Environmental] Development”. Although maybe just a question of “better labelling”, its effect is to make the 2007 report feel more cohesive. Similarly, the overview section on activities in 2007, which reports against six specific government priorities for the Bank and Fund identified in last year’s “Looking Ahead” section, illustrates the advantages of this year’s more robust framework. The 2007 overview section is unable to capture all the year’s activities within the six priorities, and is forced to tack on an additional eleven items to the report that don’t even fall within these priorities. While we appreciate that the Bank and Fund deal with a tremendous number of issues over a single year, this format marks an unfortunate return to the laundry list of activities that characterized earlier reports, with seemingly no coherent Canadian objectives or priorities for this work. The new medium term framework seems to acknowledge that shortcoming, and the 2008 report should rectify this.</p> <p>The report also does a better job of presenting an integrated approach to those priorities that apply to both institutions (for example, on governance reforms, sound finances and enhanced transparency, aid effectiveness and environment), albeit with different actions for each institution, where warranted. This framework is more consistent with the institutional strategy approach pursued by DfID.</p> <p>While the newly articulated actions provide basic benchmarks against which to measure progress over time, the report could go one step</p>
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		<p>further by also providing indicators, as DfID does, against which to measure success. While indicators are sometimes implied in the actions, the report would do well to more explicitly articulate corresponding indicators for each action. For example, success in “enhanc[ing] the voice of developing country members [...through...] voting, shareholding and other institutional processes” could be evaluated through: 1) increased voting share to developing country members; 2) increased resources for developing country Executive Directors; 3) additional Executive Director for the African region; 4) an articulation of open, transparent and merit-based process for the selection of World Bank and IMF leadership.</p>
<p><b>2. Content and quality of narrative reporting</b></p>	<p><b>B+</b></p>	<p><b><i>Getting there, but still falls short (cf. 2006 – “C”)</i></b></p> <p><b>Expectation:</b> 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><b>Example:</b> In the United Kingdom, DfID uses its annual report to Parliament to review and evaluate progress against the goals and objectives outlined in its institutional strategy paper (see above). The report also describes controversial projects 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><b>Analysis of 2007 Report:</b> Previous analysis found that the annual reports up until 2006 were 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 were descriptive rather than analytical in nature.</p> <p>This year’s report on activities in 2007 goes much further than previous years’ reports. It provides some analysis of the issues under debate, identifies some of the challenges and proposed Canadian solutions (or realigned positions) looking forward to 2008, and provides greater context for Canadian positions on issues. The most significant leap forward is the consistent identification of Canadian positions and corresponding actions for each of the issues addressed in the report.</p> <p>The inclusion of a separate section on reports produced in 2007 by the Independent Evaluation Office, the IMF’s internal auditor, is extremely welcome. Since these reports provide an independent assessment of the activities of the IMF, and indicate key measures for improvement, they represent an essential evaluation of the progress and effectiveness of the institution in meeting its objectives. For a government whose core principles for the Bank and Fund are to enhance “Governance and Accountability”, and “Institutional</p>

		<p>Effectiveness”, including an assessment of these reports, IMF management’s response, and Canadian positions and future actions in relation to these findings would be a notable improvement to next year’s annual report. We are disappointed that all the reports done by the Independent Evaluation Group, the Bank’s internal auditor, were not included, and would suggest including these next year.</p> <p>Reference to other independent reports, such as the Volcker and Crockett reports, and Canadian responses to these documents, are also a welcome addition, and we encourage Finance to continue including an assessment of these reports.</p> <p>Where the report continues to fall short is in how it reports on and characterizes some of the key debates. While an improvement on last year, the context in which the analysis is presented is still not sufficiently balanced. For example, the report downplays the internal financial crisis at the IMF, the anticipated annual deficit of \$400 million by 2010, and the fact that a large number of countries that have repaid their debts to the IMF ahead of schedule – in particular, some of the Fund’s most significant borrowers - have indicated that they will not be returning to the IMF for additional financing. The report does note the number of countries that took this stance in 2007, but underplays the significance of this trend. Similarly, the report makes no acknowledgement of the complete failure of the IMF to anticipate the impact that the US sub-prime mortgage crisis is having on regional and global economies, and of its failure to survey developed economies (US) as rigorously as it monitors developing countries’. While we recognize that it is not the place of this annual report to critique the failures of the institutions, it is incumbent on the government to provide a balanced perspective on the whole context, and how Canadian policy will respond.</p>
<p><b>3. Content and quality of financial reporting</b></p>	<p><b>B+</b></p>	<p><b>Marginal changes, analysis still wanting (cf. 2006 – “B+”)</b></p> <p><b>Expectation:</b> Figures to situate Canada’s multilateral financial contributions in the context of its overall Official Development Assistance (ODA); financial information indicating the extent to which 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; and 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><b>Analysis of 2007 Report:</b> The government should be comprehensive in its financial reporting, particularly given parliamentary demands for greater accounting for its use of aid dollars. Financial accountability</p>

		<p>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 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.<sup>viii</sup></p> <p>There is slightly more useful financial information in the annual report than in previous years. It is more detailed, better organized and more readily accessible. Highlights, beyond those indicated in 2006, include the following:</p> <ul style="list-style-type: none"> <li>• disaggregated figures for Canada’s contribution to Multi-Donor Trust Funds;</li> <li>• in the overview section of the World Bank Group, financial information disaggregated by region (but, unfortunately, not by sector);</li> <li>• figures for total contributions to the International Development Association, disaggregated by group and relative to the previous IDA replenishment.</li> </ul> <p>A chart indicating total contributions to the Bank and Fund (including replenishments, debt relief, Bank multi-donor trust funds and IMF special funds, etc.), further contextualized in terms of total ODA, would be helpful.</p> <p>While better than previous years, there is still limited analysis of critical financial issues at the Fund and Bank, the impact of these financial issues on the institutions and changing Canadian priorities, and of the financial implications and risks posed to both institutions and their member countries, including Canada, of current lending patterns.</p>
<p><b>4. Identification of Canadian government activities, outputs and outcomes</b></p>	<p><b>B+</b></p>	<p><b>Better sense of how Canada realized its priorities (cf. 2006 – “B-“)</b></p> <p><b>Expectation:</b> 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; how our Executive Directors have voted on issues and projects; and the final outcome of board discussions and decisions should be made clear relative to the Canadian position.</p> <p><b>Example:</b> In the 2005 Annual Report on the Bank<sup>ix</sup>, the British Department for International Development (DfID) provides details on the 14<sup>th</sup> 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><b>Analysis of 2007 Report:</b> As with last year, the report has taken some positive steps forward in its overview section of the year’s activities. The report provides more detail on Canadian positions on issues, along with examples of what the government has done to advance those positions, and in many cases indicates what it will be pushing looking forward. For example, while supporting IMF quota reform that better reflects countries’ economic weight in the global economy through a simple and transparent formula, the report highlights a proposal the government has been advancing to do this, giving greater weight to purchasing power parity over gross domestic product in the quota formula, and indicates that the government will be trying to play a bridging role between countries with divergent positions looking ahead.</p> <p>The report’s new medium-term framework will make Canadian priorities, positions and corresponding actions on issues more transparent in the future. Further improvements to the annual overview section, however, are unlikely in the absence of corresponding indicators, or anticipated outcomes, that not only measure success in achieving these priorities, but also help better articulate what Canada actually wants. For example, in terms of “institutional effectiveness”, a Canadian priority is to enhance country-level effectiveness at the World Bank, and a corresponding action is to “promote a closer IFC and IDA partnership to ensure the best use of resources to maximize the Bank’s contribution to private sector development in the poorest countries”. It is unclear what this means in practice. In this case, indicators, or anticipated outcomes, might be “An assessment by Bank Management of the value added of each institution to supporting the private sector in low-income countries”, or “Development of an institutional strategy on how to engage small and medium-sized enterprises in low income countries”.</p> <p>While we can appreciate that it is not always possible to anticipate outcomes on all issues, without articulating more concrete indicators of success, it is difficult to determine what Canada sought and whether it made progress in achieving a specific action. In fact, it becomes easy for any realized outcomes (that fit within the broad priorities and actions identified) to be identified <i>post hoc</i> as the outcomes that were “anticipated” in the first place. For example, this year’s report suggests that the new selection process (broad guidelines, timetable, clear nomination process, etc.) for the leadership at the Bank and Fund was what the government always wanted. However, the government has never gone beyond broad support for an open, transparent process, and at the time of the nominations Canada was identified in the media as one of the governments in favour of maintaining the <i>status quo</i>. In the absence of more detailed indicators, there is a disjuncture between policy and practice.</p>
<p><b>5. Evaluation of Canadian participation at</b></p>	<p><b>B-</b></p>	<p><b>Still little assessment of value added (cf. 2006 – “C”)</b></p> <p><b>Definition:</b> Information about the results of Canada’s participation</p>

**the Bank and IMF**

and the benefits to Canada from its 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 priorities and objectives in developing countries are being achieved; periodic review by the Auditor General's office.

**Example:** The objectives that are outlined in 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<sup>x</sup>, 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.

DfID has also developed a separate Multilateral Effectiveness Framework (MEFF)<sup>xi</sup> to assess the effectiveness of its engagement with the international agencies to which it provides central funding.

In December 2005, the National Audit Office conducted an audit of both the government's ISP and its MEFF.<sup>xii</sup>

**Analysis of 2007 Report:** As with past reports, the benefits that Canada derives from participating in the World Bank and IMF remain general: it strengthens the government's voice in two leading international institutions promoting international financial stability and poverty reduction; it allows it to maintain a presence in more countries than possible through a limited bi-lateral program; it allows it to pursue its own priorities internationally; and it opens doors for Canadian businesses to procure contracts. Because of the more explicit articulation of Canadian positions and actions on specific issues, the report goes some way towards illustrating how these benefits play out in practice. There is some evaluation of challenges and emerging issues that help inform and reshape forward-looking priorities. The government's core principles for engaging with the Bank and Fund (accountability, effectiveness, poverty reduction and growth), are also broadly in keeping with the government's themes for international development (accountability, efficiency and focus), and occasional reference is made to where our bilateral programs complement Bank work (Afghanistan, failed and fragile states, health and nutrition).

That said there is still no assessment regarding the effectiveness of pursuing our international development priorities through the Bank and IMF, as opposed to other avenues. For example, the 25% increase in aid resources dedicated to the Bank is justified by the

	<p>assertion that “IDA is widely held to be one of the most effective institutions”. In fact, there has not been a review of the effectiveness of these institutions and Canadian participation at them since 1995.</p> <p>Secondly, while the core principles for engaging with the Bank and Fund fit with the broad themes for Canadian international development, when the government eventually elaborates its foreign aid policy, it will be important to assess how our goals, priorities and actions at the Bank and Fund are consistent with our international development goals and priorities.</p> <p>Thirdly, there is also still no overview or analysis of the results and impacts of IMF and World Bank programs in countries, relative to the realization of the Millennium Development Goals.</p> <p>Finally, we would encourage an Auditor General review of the annual report every ten years (as the 1992 AG report suggested). “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.”<sup>xiii</sup> It has now been sixteen years and these recommendations remain relevant today.</p>
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## Endnotes

<sup>i</sup> 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 31, 2008.

<sup>ii</sup> 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.

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

<sup>iv</sup> 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>

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

<sup>vi</sup> For detail of DfID’s objectives for the Spring meetings, see <http://www.dfid.gov.uk/aboutdfid/DFIDwork/wbandimf-objectives2007.asp>; for the Annual Meetings, see <http://www.dfid.gov.uk/aboutdfid/DFIDwork/wbandimf-objectives2007-annual.asp>

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

<sup>viii</sup> 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*.

<sup>ix</sup> DfID’s 2005 annual report is available at <http://www.dfid.gov.uk/pubs/files/uk-worldbank-2005.pdf>; its 2006/2007 annual report is available at <http://www.dfid.gov.uk/pubs/files/involvement-wbank.pdf>

<sup>x</sup> 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>

<sup>xi</sup> 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>

<sup>xii</sup> National Audit Office, *Engaging With Multilaterals*, December 2005, [http://www.nao.org.uk/publications/DFID\\_multilaterals.pdf](http://www.nao.org.uk/publications/DFID_multilaterals.pdf)

<sup>xiii</sup> 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*.