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Statement by the Hon. **HUGUETTE LABELLE**,
Alternate Governor of the Bank for **CANADA**,
at the Joint Annual Discussion

**Plenary Session of
the Boards of Governors of the IMF and World Bank**

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**Statement prepared for Mme. Huguette Labelle
Alternate Governor of the Bank**

Let me begin by expressing my appreciation to the Government of China for its impressive efforts in hosting this event and the warm hospitality that has been extended to all of us during these meetings.

The Canadian Picture

The macroeconomic policy framework that we have adopted in Canada -- which focuses on putting the public finances on a sound basis and keeping inflation low -- is now clearly paying off in the form of stronger growth and improved job creation. The Canadian economy expanded at a robust annual rate of 4.3 per cent in the first half of 1997. This represents a significant strengthening in the pace of activity from the rate of 1.5 per cent in 1996. Moreover, these recent numbers have prompted the IMF to raise its forecast of Canada's growth for 1997 as a whole to 3.7 per cent.

Stronger growth is also translating into healthy job creation. The Canadian economy generated more than 260,000 jobs in the six months to the end of August, pushing the unemployment rate down to 9 per cent. This performance suggests that Canada is poised to shortly attain the 300,000 jobs expected by private-sector forecasters at the time of the February Budget. Moreover, there is every indication that improved labour market conditions are helping to create a "virtuous circle" in which stronger employment growth leads to increased confidence which, in turn, results in continued overall growth.

The decline in interest rates and rise in confidence, which have contributed most directly to stronger growth, have been made possible by the remarkable progress that has been achieved by Canada's federal and provincial governments in reducing their deficits. Our financial requirements -- a measure of the government's cash flow position -- were in a surplus in fiscal 1996-97 for first time in over 15 years. On this basis, Canada's budgetary performance is the best among all the G-7 countries.

The World Economy

Turning to the international picture, the outlook for the world economy, on the whole, continues to be promising. Output, trade and employment prospects have improved over the past year and further robust gains are expected next year. Moreover, the remarkable degree of policy convergence around the world — in particular, the strong commitment to low inflation and fiscal consolidation — suggests that the current global expansion will

likely be sustained. Nevertheless, risks remain. Our best protection against these risks, however, lies in the continued pursuit of sound domestic policies, international cooperation, and global integration as set out in last year's Declaration on Partnership for Sustainable Global Growth.

While the recent turmoil in South East Asian equity and exchange markets has highlighted the risks associated with global capital flows, we must not lose sight of the fact that these also convey critical benefits. An open and liberal system of capital movements improves the allocation of financial resources and can contribute significantly to global economic growth.

Institutional Achievements and Challenges

As we are all aware, the Fund has been actively promoting the orderly liberalisation of capital flows for some time now. Broadening the Fund's authority to formally establish this activity as part of its mandate is long overdue. For this reason, I support an amendment to the Articles, which would make the promotion of capital account liberalisation a "specific purpose" of the Fund.

In the coming months, however, substantial work must still be done to determine the precise scope of the Fund's jurisdiction, as well as appropriate transitional provisions and approval policies. Close co-operation with other international institutions, such as the World Bank, the OECD and the WTO, is essential to ensure that the Fund's jurisdiction is consistent with the work of these institutions. In our view, such cooperation would appear to exclude Fund involvement in inward direct investment which is under discussion in these other institutions.

Turning to other Fund issues, I am pleased with the recent agreement on an IMF quota increase. I also welcome the agreement on a special one-time SDR allocation. This agreement will ensure that all members receive equitable treatment under all previous SDR allocations.

I would also underline the importance that we attach to recent progress to broaden the eligibility criteria and significantly increase the size of the debt initiative for the heavily-indebted poor countries. These changes will allow an even greater number of countries to benefit from this exceptional assistance. The next challenge is to ensure that this initiative is adequately funded. For our part, I am pleased to announce that Canada will convert its share of the SCA-2 refund into an unconditional grant of about SDR 12 million to support this initiative. For its part, the Fund needs an early discussion of the need to better "optimize" the use of its resources. It is also important that we encourage the Bank and the Fund to continue their efforts to press ahead in aggressively implementing this initiative.

I have also been impressed with Mr. Wolfensohn's efforts to bring about fundamental reforms in the World Bank through the "Strategic Compact". The progress report

reviewing the concrete measures that have been undertaken in the first six months, to improve the Bank's development effectiveness, confirms that real change is taking place. Indeed, the Bank's commitment to reform is very much in keeping with the principles enunciated in the DAC strategy "Shaping the 21st Century", which Canada has supported wholeheartedly. The Bank's efforts to more fully engage developing countries in partnership – to work more collaboratively with these countries as well as other donors – will be strengthened through initiatives such as decentralization of country programs, which is already underway.

Strengthening Good Governance

Let me also briefly comment on the recent work, which the Bank and the Fund have undertaken on governance issues. Last year, Mr. Camdessus and Mr. Wolfensohn emphasized that good governance is central to the basic economic objectives of both Bretton Woods Institutions. This was recently underlined in the groundbreaking research in this year's World Development Report on "The State of a Changing World". The Bank and the Fund deserve to be commended for their efforts to move beyond rhetoric to provide practical guidance on these difficult issues.

The fight against corruption is of particular concern to the international community. As we are now acutely aware, corruption deters domestic and foreign investment and discourages private sector development. Moreover, the cost of corruption falls disproportionately on the poor, who are unable to pay bribes, and are therefore frequently denied essential services. In addition, widespread bribery undermines public trust in government and hinders the development of a well-functioning bureaucracy -- both critical ingredients for economic and social development.

For these reasons, Canada is a strong supporter of action by the OECD to eliminate the favourable tax treatment that some industrial countries still provide for bribes. Canada also welcomes the promotion of a non-bribery pledge for all companies bidding on World Bank projects. In our own activities, we are pressing ahead to include anti-corruption clauses in all contracts which are signed between Canadian companies and the Canadian International Development Agency (CIDA)

The Bank and the Fund can play a key role in addressing governance issues by bringing their unique expertise and experience to bear on the problem. I see the following opportunities for greater Bank and Fund involvement in the future.

First, both institutions can better integrate governance considerations into their operations. The Fund needs to do this in the context of its Article IV consultations and adjustment programs. The Bank needs to factor governance issues more explicitly into its policy dialogues, country assistance strategies, public expenditure reviews, lending programs and project designs. In addition, both institutions need to take greater account of excessive military spending, especially when this comes at the cost of spending on basic health and education.

Second, the opportunities that exist for international cooperation on governance issues must be better exploited. Progress in areas such as money laundering and transnational bribery can only be made if all parties work together. In the future, this means greater consultation and sharing of information among the Bretton Woods Institutions, regional development banks, the OECD and UN institutions and bilateral donors.

Third, it is essential that a government have the capacity to provide a professional civil service, predictable and accountable policymaking, and a fair and transparent tax system. However, capacity building does not end here. Good governance requires the involvement of people in the decision-making process. For their part, the Bank and the Fund need to pay more attention to capacity building at the local level to help to better educate people to understand governance issues and provide viable forums for the exchange of ideas.

Finally, it is critical that information on best practices in such areas as efficient public sector management and effective tax systems be widely available. Developing countries, which have the ability to retrieve such information, have a marked advantage over those that do not. Indeed, the recent international conference, which Canada and the World Bank co-hosted on Knowledge for Development in the Information Age -- Global Knowledge '97 -- concluded that knowledge is increasingly becoming the basis for the wealth of nations, and for individuals to move out of poverty and take full part in economic, social and cultural spheres.

However, knowledge, and the new technology that makes it potentially more accessible, will not automatically be accessible to all. Failure to consciously address issues of access to knowledge can aggravate existing problems of poverty and marginalization. For this reason, we wholeheartedly support President Wolfensohn's goal of making the World Bank into a "knowledge bank" and urge an explicit and concerted focus on the role of knowledge in poverty reduction.

Let me conclude by noting that the Bretton Woods institutions continue to face enormous challenges. However, we remain confident that they are fully capable of meeting these with flexibility and imagination.