Issue update

Selected Issues on International Financial Institutions

Volume VI, Number 4 — April 30, 2010

IMF, European Union look to bail out Greece

Greece's debt crisis is finally coming to a head, with International Monetary Fund (IMF) loans to deal with the country's deficit and heavy debt load being hammered out in Athens. The European Union and the IMF are negotiating the terms of a bailout as fears mount that Greece's crisis could soon spread to other countries in Europe and beyond. Other nations carrying significant debt loads, including the United States, are concerned that the Greek crisis is a harbinger of things to come, closer to home.

Athens tried to avoid a bailout, which it viewed as deeply embarrassing, but ceded in mid-April, inviting the IMF to consult on policies that could provide the basis for financial assistance. The amount of the loan being considered by the IMF has increased from the €45 billion Greece originally requested for 2010, to €120 billion over three years. Experts claim that a rescue package would reduce the chances of a default, feared by financial markets, but would also likely hamper prospects of economic growth in Europe this year. The package will likely lock Greece into fresh rounds of austere spending cuts, including freezing public sector wages. Polls indicate that the public largely opposes IMF intervention, and the unions have called a national strike, arguing that IMF support is an attack on workers' rights and will hurt the poor.

Canadian Finance Minister, Jim Flaherty, has "significant concerns" about Greece's debt crisis and its impact on global recovery, and is hoping for a swift resolution.

Read more: IMF Promises More Aid for Greece as European Crisis Grows. Landon Thomas Jr. and Nicholas Kulich. April 29, 2010,
http://www.nytimes.com/2010/04/29/business/global/29euro.html

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Our core funders are the C.S. Mott Foundation, the International Development Research Centre, the Sigrid Rausing Trust and Coalition members.

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EDC backs another controversial mine

This month, Export Development Canada approved financing worth $250 to $500 million for the Pueblo Viejo mine in the Dominican Republic. The project is under development by Canadian companies Barrick Gold and Goldcorp Inc.

Days before EDC's decision, hundreds of Dominicans marched against the mine, calling for the cancellation of the project lease and the withdrawal of the Canadian companies. The Catholic Church has called for greater transparency regarding the deal reached between the companies and the Dominican government. High-ranking church officials have demanded public information regarding the contract, the applicable regulatory framework and plans to address historic contamination at the mine site. According to news reports, the latter includes acid mine drainage. Last month, the country's environment minister suggested that the contract be revised to deal with the latter. Canada's Ambassador to the Dominican Republic, Todd Kuiack, has publicly defended the mine contract, assuring Dominicans that it includes mechanisms to guarantee environmental protection.

Last month the mine generated more controversy when hundreds of its workers were poisoned. A study by the Dominican Republic's Academy of Sciences and the Autonomous University of Santo Domingo State University concluded that the workers were exposed to toxic chemicals. Barrick refutes this claim.

IMF goes for the FAT, while giving a nod to Robin Hood

Insurance funds, bank levies and financial activities taxes (FAT) overshadowed Greece's looming debt crisis at the G20 Finance Ministers' meeting in Washington D.C. this month. In September, the G20 mandated the IMF to prepare a report on "how the financial sector could make a fair and substantial contribution toward paying for any burdens associated with" government bailouts of the banking sector (See IU 9, 2009). But what the IMF proposed (a levy to set up an insurance fund and tax on bank profits) was staunchly opposed by many governments – led by Canada. With competing proposals on the table (see "JUST THE FACTS"), the G20 has now asked the IMF to consider "options to ensure domestic financial institutions bear the brunt of any extraordinary government intervention where they occur, address their excessive risk-taking and help promote a level playing field."

As part of the report, the IMF also considered the financial transactions tax (FTT). While indicating that the FTT was not the best tool for its mandated study, the IMF did dismiss a long-standing critique of the FTT - that it can't be done. "The FTT," writes the IMF, "should not be dismissed on grounds of administrative practicality." Earlier this month, Canadian groups launched an FTT or "Robin Hood Tax" campaign with a new animated video and media stunts, building on momentum for the idea that has grown in Europe. The New Democratic Party also came out in support of the FTT and has included it in its election platform.

Policy Brief: The Financial Transaction Tax (FTT) - An idea whose time has come - April 2010, http://halifaxinitiative.org/content/policy-brief-ftt-idea-whose-time-has-come-april-2010

The new Robin Hood Tax campaign and animated video, http://robinhoodtax.ca/

Notice Board – This month…

- Despite strong opposition from groups in South Africa, Europe and the US, the **World Bank has agreed to provide $3.75 bn** to the Eskom **coal-fired power plant** in South Africa, putting the Bank **at odds with** its commitment to address **climate change**. The plant will release **25 million metric tons of pollution** annually**.** Residents have already filed a complaint with the World Bank's Inspection Panel, citing health, livelihood and environmental concerns. http://www.africaaction.org/inspection-panel-pr.html
- A new report by Global Financial Integrity, *Illicit financial flows **from Africa***, estimates that between 1970 and 2008 **illicit outflows** from the continent approached **$1.8 trillion**. http://www.gfip.org/storage/gfip/documents/reports/gfi_africareport_web.pdf
- **China** is talking about **letting its currency slowly appreciate**, allowing for a more flexible band within which the renminbi is pegged against the US dollar. China began fixing its exchange rate in July 2008 in response to the global financial crisis, and has been **criticized by the G8**, in particular the US, **for undervaluing** its currency.
- **Morris Rosenberg**, the deputy health minister, will replace Len Edwards as the **new G8 Sherpa**, who in turn will become the **PM's personal representative for the G8 and G20**.
- A **private member's bill** in the **United Kingdom** designed to **curtail** so called "**vulture funds**", which buy up debt held by developing countries and then use British courts to extract payments, was approved in the House of Lords just before the election call.
- The lower house of the **Dutch parliament** passed a **motion** that requests the government to look into establishing **a fund to cover the judicial costs of foreign victims** filing claims in Dutch courts regarding the **irresponsible behaviour of Dutch multinationals.**
- Last September, the G20 announced that **voting shares for developing countries** would **rise** by 5 percent **at the World Bank**. Following the Bank's spring meetings, it seems just **middle-income** and **transition economies** will benefit. **India**, **Brazil** and **China** (now the 3rd largest shareholder) will see their shares increase. In contrast, all sub-Saharan Africa, except Sudan, will see no increase, and South Africa and Nigeria will have their shares cut.
- The 2010 Canadian G8 Civil Society Coordinating Committee organized three **roundtables with experts, parliamentary critics and civil society respondents** on **climate financing**, the **millennium development goals**, and the **financial crisis**. **"Podcasts"** of the events are at http://halifaxinitiative.org/content/parliamentary-roundtables-g8g20-agendas .

New Publications this month

- "*A Roadmap for Integrating Human Rights into the World Bank Group*", World Resources Institute, April 2010, http://www.wri.org/publication/roadmap-for-integrating-human-rights-into-world-bank-group
- "*Fifteen years is enough: What's changed in the international financial system and its institutions, what hasn't and what needs to*", March 2010, edited by the Halifax Initiative. http://halifaxinitiative.org/sites/default/files/%28Web%2915%20years%20is%20enough.pdf

Upcoming Events

- Final Committee hearings on Bill C-300, May 11 and 13, Ottawa, Canada.
- International (G20) Conference on Financial Markets, May 19-20, 2010, Berlin, Germany
- G20 Sherpa meeting, May 24-25, Calgary, Canada

Bank levies, FAT taxes, and contingent capital, oh my!

In the past few months, there have been various proposals beyond the financial transactions tax (see "Just the Facts" Jan 2010). Here we explain four of them:

- **The bank levy to cover past bailouts.** In December 2009, US President Obama announced a plan for a "Financial Crisis Responsibility Fee" on the liabilities of the largest banks to recoup an estimated $90 bn over 10 years and cover some of the costs of the $700 bn bailout of the financial services industry, agreed by Congress in October 2008. Critics have noted that the $90 bn falls far short of the money used to bail out the banks, in particular if you include Fannie Mae and Freddie Mac, and that it also does little to change the way banks do business. The proposal would also leave hedge funds off the hook. Thus far, Congressional Democrats have declined to insert the bank levy in the financial reform bill now being debated in the U.S. Senate.
- **The bank levy to cover future bailouts.** At the end of March, Germany proposed placing a levy on <u>all</u> banks, with 75 percent of the levy falling on the most important banks. The proposal would raise €1.2 bn every year over ten years, the proceeds of which would be used to create an insurance fund to bail the banks out in any future crisis, rather than relying on taxpayer money. It would not be tax deductible. In the French case, it would go straight into the national budget. The UK is planning something similar. Criticism of the levy has fallen on the small amount of money it would generate, the fact that it doesn't cover the costs of the current crisis, and the moral hazard associated with the scheme (insuring against future bailouts creates an incentive for banks to take more risk).
- **The IMF levy and tax** - The IMF's interim report proposes a Financial Stability Contribution (FSC) on the non-deposit liabilities of all major financial institutions (not just banks). The proceeds would go into a resolution fund that they could access in the event of a future crisis. Initially, the FSC would be set at a flat rate, and later refined to reflect the riskiness of different institutions. Should governments wish to generate additional revenues, the IMF suggests an additional Financial Activities Tax (FAT) on bank profits and excessive remuneration packages. The proceeds would go to general government revenue, making further credit available for financial institutions if necessary, while also addressing the fiscal side-effects of the crisis on governments, that is, on government deficits and debt. Not surprisingly, the banking sector vociferously rejected the proposal, arguing that it would punish banks and economies while not addressing risk in the banking system. Governments' views were mixed.
- **The Flaherty proposal –** To date, Canada has opposed the bank levies, the FAT and the FTT, focusing instead on bank capital and leverage requirements and a self-insurance scheme (embedded contingent capital), whereby banks set aside capital, classified as a debt obligation, which would be converted into equity in the event of financial difficulties.

Adapted from "Update on the IMF, the G20 and the Robin Hood Tax" by Mel Watkins, John Dillon & Fraser Reilly King, http://robinhoodtax.ca/story/update-on-the-imf-the-g20-and-the-robin-hood-tax