Halifax INITIATIVE d'Halifax

# MONTHLY ISSUE UPDATE

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## SELECTED ISSUES on INTERNATIONAL FINANCIAL INSTITUTIONS

### ►*World Bank Suspends Loans to Chad for Oil Pipeline*

On January 12, in a rarely seen move, the World Bank cut off funding to the Chad-Cameroon Petroleum Development and Pipeline Project pipeline. The $4.2 billion project entailed the development of the southern Chadian oil fields at Doba and the construction of a 1,070 km pipeline that begins in Chad, crosses through Cameroon, and leads to an offshore oil-loading facility on Cameroon's Atlantic coast. To address concerns about weak governance, poor budget-management experience, and setting up a major project in a recently war-torn country, the Bank had attached strict conditions to the loan. Hailed by the Bank as a pioneering breakthrough, Chad was obliged to account for its estimated $1.8 billion in oil royalties through a transparent revenue management system. As a result, in 1998 the Chadian government adopted the Oil Revenues Management Act requiring more than 80 percent of the accrued revenues to be allocated to education, health, rural development, infrastructure, environment and water, with a 10 percent long-term savings account fund to benefit future generations. But since that time, the Chadian government made fundamental changes to the law to allow for greater spending flexibility, and failed to include the Bank in the revisions. The Bank saw this change as unacceptable, and elected to suspend the $124 million loan.

Long criticized for poor participation in the assessment process, inadequate compensation, labour violations, corruption, health and environmental concerns, civil society groups welcomed the Bank's decision. However, among others, Environmental Defense and the Chadian Association for the Promotion and Defense of Human Rights have highlighted the need to address many of the ongoing problems caused by the pipeline**.** According to an International Advisory Group set up by the Bank to monitor project implementation, the oil consortium is taking land from poor subsistence farmers without ensuring that the payments adequately compensate for lost livelihoods. Local authorities and the military have been extorting money from villagers who have received compensation. Chadian human rights organizations report that human rights activists who are trying to defend local people's rights have been intimidated and threatened. Finally, the pollution is having a heavy toll on the local health and crops.

Since the January 12 decision, the Bank has been in negotiations with the Chad to resolve the dispute.

**Additional Information**

World Bank on the Chad-Cameroon pipeline:
http://web.worldbank.org/WBSITE/EXTERNAL/COUNTRIES/AFRICAEXT/EXTREGINI/EXTCHADCAMPIPELINE/0,,menuPK:843277~pagePK:64168427~piPK:64168435~theSitePK:843238,00.html
Bank Information Center on the pipeline project:
http://www.bicusa.org/bicusa/issues/chadcameroon_oil_pipeline_project/index.php

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### ►*Taxing the Skies*

The new President of the European Union (EU), Austrian Chancellor Wolfgang Shűssel, is stirring up some controversy at the European Parliament with a proposal for a European tax on "short-term speculative investors". He is also asking the European Commission to consider a tax on international air and sea travel as another means to help fund the EU budget. The budget is currently derived from contributions from member states (75%) and customs duties and value-added tax, among other sources (25%). British Finance Minister Gordon Brown has already said he opposes any European tax, and some economists have noted that a currency speculation tax will simply shift things to the US.

A year ago at the Economic Forum in Davos, Switzerland, French President Jacques Chirac proposed a global tax on cross-border financial transactions, taxes on aviation and shipping fuels, an environmental tax and air travel charges (See Issue Update 1, 2005). It will be hosting an international conference to debate the issue in February. In 1999, through the work of the Halifax Initiative, Canada's Parliament passed a private member's bill "directing the government to enact a tax on financial transactions in concert with the international community". The government has yet to act on this.

**Additional Information:**
Currency transaction tax (CTT) website: http://www.currencytax.org
Info on the Tobin Tax, the original CTT: http://www.halifaxinitiative.org/index.php/Issues_Tobin_Tax

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### ►*A new Kind of Regime Change for Bank President Paul Wolfowitz*

In the ten months since the World Bank's Board controversially nominated former US Deputy Secretary of Defense, Paul Wolfowitz, to the position of Bank President, Mr. Wolfowitz has managed to completely alienate himself from Bank staff. Since he has arrived on the scene, the senior Ethics Officer at the Bank has departed, and the Vice President for East Asia & Pacific, the Chief Legal Counsel, the Bank's top Managing Director, the Director of Institutional Integrity (which monitors internal and external corruption), and the Vice President for Environmentally and Socially Sustainable Development have all left. The moves have been accelerated by the fact that Wolfowitz is building his management team from a small group of political advisors from the US administration, rather than the five Managing Directors or 30 Vice-Presidents at the Bank. Robin Cleveland, Associate Director of the White House Office of Budget and Management, and Kevin Kellems, US Vice-President Dick Cheney's former Communications Director, are two of Wolfowitz's Senior Advisors. Ironically, these strained relations among staff and the new President have come while Wolfowitz tries to tackle corruption at the Bank, replacing old Bank managers with several Washington insiders he worked with closely in the Bush Administration. The World Bank's staff association has sent a letter objecting to Wolfowitz's refusal to use a transparent and open competitive process for these appointments.

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**New discussion papers (HI Members or Associates, government) on IFI issues:**

- "Destroy and Profit: Wars, Disasters and Corporations," *Focus on the Global South*, addresses some of the key issues and challenges that accompany post war and post disaster reconstruction programmes. It includes a section on the World Bank's new role in this area. http://www.focusweb.org/pdf/Reconstruction-Dossier.pdf
- Economic Development in Africa: Debt sustainability – oasis or mirage", UNCTAD, This report argues that debt servicing at any level is incompatible with attaining the UN Millennium Development Goals (MDGs) in many African countries. http://www.unctad.org/en/docs/gdsafrica20041_en.pdf
- "Justice for Latin America on IDB Debts", Eurodad and Latindad, Makes the case for cancelling Inter-American Development Bank debts now! http://www.eurodad.org/articles/default.aspx?id=682

**Upcoming IFI-related conferences or meetings**

"Checking in on the G8: From Gleneagles to St. Petersburg", G8 Research Group, *RSVP g8@utoronto.ca*

- 4-6 pm, February 6, in Algonquin D, Delta Hotel, Queen Street, Ottawa.
- 10-12 am, February 8, in Room 208, North House, Munk Centre for International Studies, Toronto
- 2-4 pm, Friday, February 10, Salon Hemon, Centre Sheraton, Montreal.

Conference on "Innovative Financing Solutions for Development", including talks on the Air Ticket Levy, Paris, February 28 - March 1. For details see http://www.ambafrance-ca.org/article.php3?id_article=1065

**JUST THE FACTS – The Tobin Tax – An International Tax on Foreign Currency Exchange**
In 1978, James Tobin, a Nobel-Prize-winning economist, first proposed the idea of a tax on foreign exchange transactions that would be applied uniformly by all major countries. A small amount (less than 0.5%) would be levied on all foreign currency exchange transactions to deter speculation on currency fluctuation. While the rate would be low enough not to have a significant effect on longer term investment where yield is higher, it would cut into the yields of speculators moving massive amounts of currency around the globe as they seek to profit from minute differentials in currency fluctuations.

Interest has grown rapidly in such a mechanism, as the place of foreign exchange transactions and financial deregulation has accelerated over the past decade. Today approximately US$1.5 trillion worth of currency is traded every day in unregulated financial markets. Less than 5% of this activity is related to trade in goods and services. The other 95% is simply speculative activity as traders take advantage of exchange rate fluctuations and international interest rate differentials.

Such a tax would help 1) Reduce the volatility of exchange rates; 2) Reduce the power that financial markets have over national governments to determine fiscal and monetary policies; 3) Raise revenue to support sustainable human development.