

Issue update

Selected Issues on International Financial Institutions

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IMF missed the crisis due to deregulation “groupthink”

The international body tasked with surveilling global finance did not provide “warnings about the risks and vulnerabilities” in the lead-up to the “world’s worst financial and economic crisis since the 1930s,” according to a report by the IMF’s Independent Evaluation Office (IEO).

The report concludes that “the IMF’s ability to correctly identify the mounting risks was hindered by a high degree of groupthink, intellectual capture, a general mindset that a major financial crisis in large advanced economies was unlikely, and inadequate analytical approaches.” The prevailing groupthink was based on the belief “that market discipline and self-regulation would be sufficient to stave off serious problems in financial institutions.”

During the lead up to the crisis, the IMF endorsed the “light-touch regulation and supervision policies” of the U.S. - policies that contributed to the financial crisis. The IMF exacerbated the crisis by recommending that countries deregulate their financial markets along the lines of the U.S. approach. In retrospect, the report notes, some countries, such as India, Germany and Canada, were protected from the financial crisis because they did not accept the IMF recommendations.

The report recommends a series of reforms but notes the Fund’s reluctance to implement past recommendations. It is more than a little disconcerting to find that the IMF, whose deregulation policy advice made the global economy more vulnerable to financial crisis, is now the go-to institution for the G20 as it seeks to develop regulations for the international finance system. For more information on the IEO report, see *Just the Facts*.

IMF Performance in the Run-up to the Financial and Economic Crisis
http://www.ieo-imf.org/eval/complete/eval_01102011.html

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Colombian government puts brakes on World Bank-financed mine

Plans by Greystar Resources, a Canadian mining junior, to develop the Angostura project in northeastern Colombia have hit an impasse. The gold and silver project was planned as an open-pit mine that would employ significant quantities of cyanide. But the project site is located in a *paramo*, a high-altitude Andean ecosystem that is an important source of water for local populations. The project is actively opposed by residents in Bucaramanga, the capital of the Department of Santander, and by twenty other towns that depend on the *paramo* as a source of potable water.

This month Greystar withdrew its application for a licence for the project, “after it became evident that regional and national government and the community of Bucaramanga did not support the Project as configured.” The company indicated its intention to reconfigure the project as an underground mine.

However, in a written statement, Colombian Minister of Energy and Mines, Carlos Rodado Noriega, dismissed the feasibility of a mining project that affects the *paramo*, regardless of its structure. The minister explained that the *paramo* “captures, filters, regulates and recharges water resources” and described its protection as “pressing.”

In a report regarding Canadian extractive investment in Colombia, Inter Pares describes the use of military action to secure the area used by Greystar: “[t]he Colombian Army’s efforts to regain control of the region and end the long-term presence of the FARC in the project area were at least partially intended to allow Greystar to return to its operations; paramilitary groups also became involved. The violence had the effect of temporarily and permanently displacing local people and permanently destroyed their food production capacity. It is not clear to what extent local people were able to maintain title to their properties or under what circumstances they might have lost or sold those properties.” The report identifies a significant risk that the company is benefitting from the dislocation and displacement of local populations, and that it is rewarding people or groups who have committed human rights violations.

Remarkably, Greystar’s activities are funded by the International Finance Corporation (IFC) of the World Bank Group. The IFC holds a \$12 million equity interest in the company. IFC capitalization was used, among other things, to fund the environmental and social impact assessment for the ill-conceived project.

Statement by Colombian Minister of Energy and Mines (in Spanish)

http://www.minminas.gov.co/minminas/index.jsp?cargaHome=2&opcionCalendar=4&id_noticia=950

Land and Conflict. Resource Extraction, Human Rights, and Corporate Social Responsibility: Canadian Companies in Colombia

http://www.interpares.ca/en/publications/pdf/Land_and_Conflict.pdf

Notice Board - This month...

- ☰ The Canadian Network on Corporate Accountability (CNCA) launched its web site:
<http://cnca-rcrce.ca/>
- ☰ A US government cable released by Wikileaks reveals that the Canadian embassy in Argentina and Canadian mining companies with investments in that country sought to influence provincial governments in the area of environmental law and policy. The cable makes reference to several provincial legislatures that banned the use of toxic chemicals, such as arsenic, in mining operations. US officials report that according to the Canadian ambassador, these chemicals are 'widely and safety used elsewhere.'
<http://cablesearch.org/cable/view.php?id=09BUENOSAIRE67&hl=canada>
- ☰ The OECD has urged Canada to do more to combat corruption in the global mining industry. The OECD expressed "significant concerns" about Canada's anti-bribery legislation and enforcement capability. Canada ratified an OECD convention against the bribery of foreign government officials but has made just one conviction under domestic legislation since 1999.
<http://www.timescolonist.com/business/Canada+mining+anti+bribery+efforts+OECD/4519966/story.html#ixzz1laNynubN>
- ☰ James Anaya, UN Special Rapporteur on the rights of indigenous peoples, will analyze the impacts of natural resource extraction and development projects on the rights of indigenous peoples and prepare an assessment of the respective responsibilities of states, corporations and indigenous peoples.
- ☰ This month, the Ontario Court of Appeal dismissed an appeal by Ecuadorian citizens who claim that they were assaulted by security forces hired on behalf of a Canadian mining company. Marcia Ramírez, Polivio Pérez and Israel Pérez sued Copper Mesa Mining Corporation, two of the company's directors and the Toronto Stock Exchange.
<http://www.ramirezversuscoppermesa.com/>
- ☰ Meanwhile, Rosa Elbira Coc Ich, Margarita Caal Caal and nine other Mayan Q'eqchi' women from Guatemala launched a suit against HudBay Minerals and HMI Nickel in an Ontario court. The plaintiffs allege that they were gang-raped by uniformed mining company security personnel, police and military.
<http://www.chocversushudbay.com/>

New Publications

- Department of Finance: "*Canada at the IMF and the World Bank Group*," annual report to Parliament on Canada's activities at the Bretton Woods Institutions. Identifies Canada's priorities at the IMF and the World Bank for 2011 to 2015.
<http://www.fin.gc.ca/bretwood/bretwd10-eng.asp>
- Bretton Woods Project (with Halifax Initiative and 20 other NGOs): "*Heading for the right choice? A professional approach to selecting the IMF boss.*" The IMF has committed itself to introducing an open, merit-based and transparent process for the selection of its next managing director. This paper sets out three key elements to ensure a successful process.
<http://www.brettonwoodsproject.org/art-568253>

IEO report: why IMF failed to warn of pending crisis

The IEO is an arm's length office of the IMF tasked with conducting "independent and objective evaluations of Fund policies and activities." The report, "IMF Performance in the Run-up to the Financial and Economic Crisis," evaluates the IMF's surveillance of the international economy from 2004 to 2007.

The report finds that the IMF missed all indications of a pending crisis. "Even as late as April 2007, the IMF's banner message was one of continued optimism within a prevailing benign global environment. Staff reports and other IMF documents pointed to a positive near-term outlook and fundamentally sound financial market conditions."

The Fund did not notice "similarities between developments in the United States and United Kingdom and the experience of other advanced economies and emerging markets that had previously faced financial crisis."

The report reveals double standards in the Fund's approach to the leading industrialized countries versus developing nations. For example, the IMF was reluctant to provide policy advice to the US and UK. In fact, staff often deferred to financial authorities in those countries. This contrasts sharply with the IMF's imposition of policies on developing countries.

At the core of the Fund's failure were its "[a]nalytical weaknesses," specifically the prevalent "groupthink and other cognitive biases, and analytical approaches/knowledge gaps." This includes the Fund's faith in market discipline and self-regulation, and IMF economists' tendency "to hold in highest regard [general equilibrium] *macro-models that proved inadequate* for analyzing macro-financial linkages" (emphasis in original).

"Weak internal governance, lack of incentives to work across units and raise contrarian views, and a review process that did not "connect the dots" or ensure follow-up also played an important role, while political constraints may also have had some impact."

"A majority of staff who responded to [an IEO] survey ... stated that their research and its conclusions had to be aligned with IMF views." Staff within the Fund reported "that incentives were geared toward conforming with prevailing IMF views, ... that expressing strong contrarian views could 'ruin one's career.' According to the report "many staff members believed that there were limits as to how critical they could be regarding the policies of the largest IMF share holders - [stating] that, 'you cannot speak truth to authorities' since '... you're owned by these governments'."