

Issue update

Selected Issues on International Financial Institutions

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Europe looking to lead on response to financial crisis

A warning against US (and Canadian?) opposition to a new international architecture of institutions and tighter regulations to manage a more “moral” form of global capitalism, a flexible Economic Council within the United Nations, and an economic sustainability charter that establishes the rules for global financial governance, were three of the key themes raised by German Chancellor Angela Merckel and French President Sarkozy at a high-level symposium hosted by Sarkozy and former British Prime Minister Tony Blair in Paris this month.

The meeting, which brought together policy makers, economists, trade-unionists and business leaders, sought the reflections of individuals such as Joseph Stiglitz, Amartya Sen and Francis Fukayama, on three key issues: the principles that might guide a more responsible and ethical capitalism; where institutions (including the state) needed to be strengthened and what new mechanisms needed to be established to ensure a more equitable distribution of the benefits of globalization both between and within states; and, what increased regulation of the market may entail and how it may be implemented most efficiently.

While Sarkozy and Merckel also want strong European leadership at the next G-20 meeting, their ambitions may have to be left at the door. In an open letter to G-20 Finance Ministers the UK’s priorities for the April meeting look simply like a series of measures to fix financial markets gone bust rather than any major rethink of a “Nouveau monde, nouveau capitalisme”. To quote one critic, “Patch up the boat and full steam ahead”.

« Nouveau monde, nouveau capitalisme. Ethique, développement, régulation »

<http://www.colloquenouveaumonde.fr/home/>

UK Objectives for the G-20 in 2009, http://www.hm-treasury.gov.uk/d/g20_ukobjectives_080109.pdf

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World Bank seeks special fund for the poor

World Bank President Robert Zoellick is urging Barack Obama to support countries that cannot afford bailouts and deficits by handing over 0.7% (\$6 billion) of the recently-approved U.S. economic stimulus package to a new “vulnerability fund”. On the Op Ed pages of the New York Times, Zoellick argues that the fund, which is intended to shield the world’s poor from the global economic crisis, will also benefit the U.S. economy - enhanced spending on infrastructure in developing countries will increase demand for American goods.

Zoellick’s hope is that other western nations will follow where Obama leads and commit funds at the London G-20 meeting. The World Bank president proposes to use the money to support safety net programs, infrastructure, microfinance, and small and medium-sized enterprises.

The need for additional support for developing countries is not in question. What is less clear is whether Zoellick’s proposal that the fund be administered by the Bank, together with the United Nations and the regional development banks, is sound. While Zoellick pledges to provide “fast and flexible aid delivery, backed by safeguards to ensure that the money is well spent”, the Bank’s record on aid delivery - and the devastating impacts of some of its past endeavours - invites skepticism regarding his claims.

A Stimulus Package for the World, January 22, 2009 NYT Op Ed
<http://www.nytimes.com/2009/01/23/opinion/23zoellick.html>

UN forges ahead with plans to address financial crisis

Refusing to be sidelined by the G-20 process, United Nations President of the General Assembly, Miguel D’Escoto, this month held the first meeting of his Commission of Experts (see last month’s [Noticeboard](#)), announced a consultation period with civil society with the Commission, as well as [modalities](#) and a timetable for the UN Conference on the Global Financial and Economic Crisis and its Impacts on Development. The UN Conference was one of the key outcomes of last month’s Financing for Development meeting (see [IU 12, 2008](#)).

The Commission’s first report touches on the impact being felt in the South from failed policies and practices that originated in the North, the inability of developing countries to provide “bailout packages” anywhere near the scale of Europe and the US, and the need for immediate and substantial funding (still via the IMF but without the “usual” conditionalities) to allow southern countries to undertake comparable counter-cyclical policies - to stimulate their economies, provide social protection, and ensure liquidity for their businesses. They also call for greater financial market transparency, and a completion of the Doha trade round.

Reactions from some civil society groups to the report have been lukewarm, with many wondering where the broader (and more radical) proposals for reforming the international monetary and financial system went.

UN Commission of Experts - consultations with civil society, Jan 26 - Feb 13, <http://www.un-ngls.org/cfr>

Notice Board - This month...

- ☰ The **World Bank** has raised **\$350 million** from Scandinavian investors through “**green bonds**”. The proceeds from the funds go towards the renovation of power plants and transmission lines (to reduce greenhouse gas emissions), solar and wind plants, coal gasification, methane capture and carbon capture and storage projects. The bonds mature in six years and pay an annual interest rate of 3.15 percent.
- ☰ **Belarus** joined Georgia, Hungary, Ukraine and Latvia as the fifth country in Central and Eastern Europe to negotiate an **emergency loan** - \$2.46 billion - **with the IMF** in the past two months. The loan has become necessary as Russian subsidies and demand for Belarusian exports has softened in recent years. Among other things, Belarus is expected to **devalue** its rouble by 20 percent, **raise interest rates**, **cut public spending**, **freeze public sector wages** and **increase tariffs** on utilities.
- ☰ The **World Bank** has **debarred seven companies** - two permanently - from bidding on future Bank contracts. The sanctions come following an investigation by the Bank’s Integrity Vice Presidency that uncovered evidence of **collusion among a cartel of local and international firms** bidding on contracts for the first phase of the **Philippines National Roads Improvement and Management Program**. None of the \$33 million on offer from the Bank for the roads went to any of the debarred firms. In November 2007, the World Bank’s Executive Directors vetoed a new \$232 million loan to a road building project in the Philippines that Bank investigators had previously confirmed was the subject of bid-rigging. We have not been able to confirm whether this was for the same project.
- ☰ As part of its new budget, the **Canadian government** noted that its **fiscal stimulus package** of \$40 billion or 1.9 percent of GDP is in **keeping with** the commitments it made at the recent G-20 meeting (see IU November 2008), where the **IMF suggested a stimulus** of 2 percent of GDP. While the extent of the stimulus ultimately depends on municipalities and individuals being able to kick in a portion of the money to take advantage of some of the programs - the ability of which many critics are calling into question - **the IMF has raised a gloomier specter: Minister Flaherty’s growth projections** for the economy. Both the IMF and Flaherty have projected a decline of 1.2 percent for this year. But Flaherty’s budget counts on 2.4 per cent growth for next year, while the IMF anticipates 1.6 percent. Balancing the books by 2013-2014 may be wishful thinking.

New Publications this month

- “*Illicit Financial Flows from Developing Countries: 2002-2006*”, Global Financial Integrity, December 2008. A comprehensive analysis and measurement of the pattern and quantity of money exiting developing countries (\$1 trillion per year!) by way of illicit activity.
<http://www.gfip.org/storage/gfip/executive%20-%20final%20version%201-5-09.pdf>

Upcoming Events

- G7 finance ministers meeting, Rome, Italy, February 13-14.
- Euro-IFI Watchers meeting, Brussels, Belgium, February 16-19.

JUST THE FACTS

2009 Calendar of events - the global financial crisis

January 1	Italy takes over Chairing the Group of Eight (G8) http://www.g8italia2009.it
January 5-6	1 ST plenary session of UN Commission of Experts on the financial crisis http://www.un.org/ga/president/63/commission/financial_commission.shtml
March 9-10	2 ND plenary session of UN Commission of Experts (Geneva)
March 14	Meeting of G-20 Finance Ministers (London)
March 25-27	General Assembly thematic interactive dialogue on the Economic Crisis and Its Impacts on Development
March 28	G-20 mass mobilization for “Jobs, justice and climate” (London)
April 2	G20 Heads of State Summit (London) http://www.hm-treasury.gov.uk/d/managingtheglobaleconomy_081208.pdf
April 6	Draft outcome document for the UN Conference on the Global Financial and Economic Crisis and Its Impacts on Development; inter-governmental negotiations on outcome document begin on April 13
April 17-19	V Summit of the Americas (Trinidad and Tobago) http://www.summit-americas.org/
April 25 -26	Spring Meetings of World Bank and IMF (Washington DC); ECOSOC/UNCTAD/ World Bank/IMF/WTO interactive dialogue follows on April 27 or 28
Mid-May	Final report of the UN Commission of Experts released
May 26-29	UN Conference on the Global Financial and Economic Crisis and Its Impacts on Development (New York)
June 12-13	G7 Finance Ministers (Venice, Italy)
July 8-10	G8 Summit (La Maddalena, Italy)
September 15	Start of the 64 th session of the General Assembly (New York)
October 6-7	World Bank and IMF Annual Meetings (Istanbul, Turkey)
November	Commonwealth Heads of Government Meeting (Trinidad and Tobago)
November 17	G20 Finance Ministers Meeting (UK)
December 7 - 18	The United Nations Climate Change Conference (Copenhagen, Denmark).

A more extensive Chronology of Events and Calendar of Activities is on-line at
http://www.halifaxinitiative.org/index.php/Current_Events