Issue update
Selected Issues on International Financial Institutions

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Innovative financing for development gets boost

As the World Bank, IMF and World Trade Organization are set to discuss innovative financing at their bi-annual High-Level meeting at the UN next month, and UN representatives address the issue in their review of Chapter IV of the Monterrey Consensus days later (see IU January 2008), innovative finance has gotten a series of unexpected boosts from various sides.

In mid-February, UN Secretary-General Ban Ki-moon appointed France's former Minister of Foreign Affairs and current Chair of UNITAID, Philippe Douste-Blazy, as his Special Advisor on Innovative Financing for Development. In his role, Mr. Douste-Blazy will be responsible for promoting UNITAID and other sources of innovative financing and for advising the Secretary General on the contribution innovative financing solutions have made to the implementation of the Monterrey consensus. He is also responsible for organizing the first World Conference of Non-Governmental Donors, which will look at development financing provided by citizens, local and regional authorities, foundations, NGOs and the private sector.

In March, the Brazilian Ministry of Foreign Affairs, a strong advocate of the "Leading Group on Solidarity Levies for Development", announced the creation of a division dedicated to innovative financing. Early in April it will also host the Board of UNITAID and a parallel NGO forum on innovative financing. And now Senegal, which currently holds the Presidency of the "Leading Group", has announced the next high-level meeting of the "Group" on April 22-23 in Dakar. The North-South Institute with the Senegalese umbrella CONGAD and others will be hosting a two day seminar for civil society on April 19-20 focused on innovative financing.

Secretary-General appoints Philippe Douste-Blazy of France as Special Adviser on Innovative Financing for Development, http://www.un.org/News/Press/docs/2008/sga1119.doc.htm

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Email info@halifaxinitiative.org to automatically receive our *Issue Update* newsletter each month.

153 Chapel Street
Ottawa ON K1N 1H5
Canada

TEL: (613) 789-4447
FAX: (613) 241-4170
WEB: www.halifaxinitiative.org

EDC must reject Tenke

On March 18, the Government of the Democratic Republic of Congo released the highly-anticipated results of a comprehensive mining contract review process that began in 2007. Civil society organizations, which have called for greater transparency in the process, heralded the move.

The government report reveals widespread and serious irregularities in numerous mining contracts negotiated with multinational mining companies, several of which are Canadian. In the case of Tenke Fungurume, the report identifies significant breaches of Congolese law. The report calls for the annulment of the contract and the negotiation of a new partnership agreement, with significant modifications.

Export Development Canada, which is currently considering an application to support the project, must respond in the negative. The contractual basis for the project is no longer valid and the project is likely to undergo serious alteration.

Congolese mining report
http://www.miningcongo.cd

NGO press release regarding Congolese report
http://www.raid-uk.org/docs/DRC_contracts/miningcontractreview-report-march08.doc

IMF begins drafting code for sovereign wealth funds

This month the Board of the International Monetary Fund approved the next stage of a plan for the institution to develop a code of conduct for sovereign wealth funds (SWFs), addressing issues of transparency, governance and accountability (See “JUST THE FACTS”). The IMF is expected to work with the Organisation for Economic Co-operation and Development, the European Commission and the governments of three of the largest SWFs — Singapore, Norway and Abu Dhabi — on the code and to complete an initial draft by this fall.

At the 2007 Annual meetings, the IMF was charged with drafting the best practice guidelines to ensure that the growing number of SWFs are being managed in a manner that is consistent with global financial stability. Last November, the IMF organized a roundtable of SWFs to hear their views and concerns, and since then has been surveying various SWFs to determine their investment objectives, governance structures and accountability arrangements.

The call for a code of conduct for SWFs has largely come from Group of Seven countries who, amid rising protectionist sentiment, fear the size of many of these investments in politically sensitive industries (like financial services, transportation, infrastructure and energy) and the non-commercial motives that may be driving some of these investments. This month, the US Treasury announced an agreement with Abu Dhabi and Singapore of basic principles for SWFs and the countries they invest in.

Notice Board – This month…

- March 29th marks one year since the release of an unprecedented joint civil-society / industry consensus report and recommendations on Corporate Social Responsibility (CSR) and the Canadian Extractive Industry in Developing Countries (See IU March 2007). The government has yet to respond to the report.
- *Environment Matters*, the World Bank's annual review of environmental issues, says that the World's poorest people in the poorest countries will be among the first and hardest hit by climate change. This is due to their geographical location, low incomes, low institutional capacity and reliance on climate-sensitive sectors like agriculture. Accordingly, the Bank's International Development Association (IDA), which provides grants to low-income countries, is now looking at how to manage climate risks in its projects in these countries. The report included a series of recommendations for moving forward.
- 20 NGOs criticized the Bank over a proposed $7-12 billion climate investment fund that they argue undermines current multilateral negotiations on climate change and creates parallel mechanisms for climate-related financing.
- The World Bank announced a new loan facility, the Catastrophe Risk Deferred Drawdown Option facility, for middle-income countries that suffer natural disasters. Through it, countries can receive up to $500 million if they have "a hazard risk management program in place that is monitored by the World Bank". The facility is intended to provide bridge financing for the country while other resources are being mobilized. Canada's constituency at the Bank includes 11 Caribbean countries that will benefit from the new facility.
- The UK's International Development Committee reproached the government for its 50% increase in funding to the World Bank without any assessment of whether this was good value for money and criticized a number of the Bank's shortcomings. http://www.publications.parliament.uk/pa/cm200708/cmselect/cmintdev/67/67.pdf
- Ana Palacio, the World Bank's General Counsel and one of the last of former Bank President Paul Wolfowitz's old guard, has announced that she will be leaving the Bank in mid-April.

New Publications

- "Stablization Clauses and Human Rights", Andrea Shemberg, for the International Finance Corporation and John Ruggie, February 2008. This consultation draft looks at the impact that stabilization clauses, and other risk allocation provisions, have on the host state's ability to adopt and implement human rights laws and regulations in areas such as labour, non-discrimination, and protection of health and the environment. http://www.reports-and-materials.org/Stabilization-Clauses-and-Human-Rights-11-Mar-2008.pdf

Upcoming Events

- World Bank and IMF Spring Meetings, Washington DC, April 10-13.
- Financing for Development (FfD) review of Chapter IV, "Increasing international financial and technical cooperation for development", New York, April 15 – 16.
- Strictly Business? New Trends in International Investment and the Challenge to Development Strategies, Vivian and David Campbell Conference Facility, Munk Centre, Toronto, April 17-18.

What are sovereign wealth funds?

Sovereign wealth funds (SWFs) are state -owned and -operated funds that make long term investments of state savings in various overseas assets. They are established to transfer current surpluses to future generations, to allow countries to diversify portfolios beyond very specific revenue generating resources (e.g oil or copper) and for strategic reasons. They are driven by maximizing long term returns on investments, as opposed to short term currency stabilization, the remit of the assets managed by central banks.

While SWFs have been around since the 1950s, it is their growth in size over the past decade, and the potentially significant impact that such funds can have on global economic stability, that has drawn the attention of entities such as the International Monetary Fund (IMF) and Group of Seven (G7). In fact, the IMF estimates the global value of sovereign wealth funds will more than triple from $2-3 trillion today, to $6-10 trillion by 2013.

Growth has been spurred by rising oil prices, globalization of financial markets, and imbalances in the global financial system that have allowed for the rapid accumulation of foreign exchange reserves and assets by some countries. Consequently, in some countries, fiscal surpluses generated by oil (Russia and the Middle East) and export (Singapore and China) revenue have fueled the growth of these funds. Abu Dhabi, Norway, Singapore, Saudi Arabia, Kuwait, China and Russia hold the world's seven largest SWFs. The Canada Pension Plan Investment Fund is sometimes called a SWF, although the Board has argued it is not.

In its background paper on SWFs, the IMF identifies five types based on their objectives:

- *stabilization funds* to insulate the budget and the economy against commodity (usually oil) price swings;

- *savings funds for future generations* to convert non-renewable (again oil) assets into a more diversified portfolio of assets;

- *reserve investment corporations* to increase the return on reserves;

- *development funds* to fund socioeconomic projects or promote industrial polices that might raise a country's potential output growth; and

- *contingent pension reserve funds* to insulate pension funds against unspecified pension liabilities on the government's balance sheet.

Sovereign Wealth Funds: A Work Agenda, International Monetary Fund, February 29, 2008.
http://www.imf.org/external/np/pp/eng/2008/022908.pdf