Issue update
Selected Issues on International Financial Institutions

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Global food crisis, Bank and IMF respond

While discussions of the World Bank's new role in the "business" of climate change (see New Publications), the IMF's new deal on quota reform (see JUST THE FACTS) and financial market turmoil looked set to top the agenda at the Bank and IMF's Spring Meetings, it was mounting concern over the global food crisis that dominated discussions.

On the food crisis, which has seen the price of rice, wheat and corn skyrocket over the past two years, both heads of the Bank and Fund made strong appeals for action, while taking small steps forward themselves. Bank President Zoellick urged donors to contribute to the US$755 million shortfall in emergency food-assistance that the World Food Programme (WFP) needs to mitigate the crisis. Zoellick also announced a $10 million emergency loan for Haiti, where food riots had broken out, and proposed a "New Deal for Global Food Policy" that would combine immediate assistance with longer term efforts to increase agricultural productivity. The latter should prove interesting. Last fall the Bank was heavily criticized both internally for its failed track record on agriculture in sub-Saharan Africa and externally for the vision for agriculture it presented in its 2007 Annual World Development Report.

For his part, IMF Managing Director Strauss-Khan said the Fund was looking to adapt its exogenous shocks facility – which provides policy and financial support to low-income countries that suffer unexpected external shocks – to address trade imbalances resulting from the rising costs to net food-importing countries. The IMF, however, has yet to announce any new crisis prevention credit line since the last one expired in 2003.

The Bank, Fund and UN have since pledged to set up a task force to address the food crisis.

Failing small farmers: The World Bank and agriculture, http://www.brettonwoodsproject.org/art-558763

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US Congress passes new bill on debt cancellation

This month, the US House of Representatives passed the *Jubilee Act for Responsible Lending and Expanded Debt Cancellation*, which calls on the US Treasury to negotiate a multilateral debt agreement for 24 countries who commit to use the savings to fight poverty. The Heavily Indebted Poor Country Initiative (HIPC), the principal means by which debt relief is granted to countries through the World Bank and IMF, currently covers 41 eligible countries (see JUST THE FACTS September 2005). The Jubilee Act extends this to a further 24 countries, but also bars “all conditions on debt relief except those encouraging transparency and anti-corruption”. The bill also calls on more resources to be devoted to grants for the world’s poorest countries, greater transparency at the IFIs, the development of a binding framework for more responsible future lending practices, and an audit of “odious, onerous, or illegal” lending by the World Bank, IMF, and US government in specific countries. The bill still has to be passed by the Senate, but enjoys bi-partisan support there.

The Jubilee Act
http://www.jubileeusa.org/jubilee-act.html

Ruggie focuses spotlight on export credit agencies

On April 7, John Ruggie, Special Representative to the United Nations Secretary-General on human rights and transnational corporations and other business enterprises (SRSG), submitted his final report to the Human Rights Council (HRC) for consideration when it meets on June 2-13.The SRSG calls for the adoption of a policy framework that addresses: the state duty to protect against human rights abuses by third parties, including business; the corporate responsibility to respect human rights; and the need for more effective access to remedies.

The SRSG identifies the state duty to protect as an urgent policy priority for governments. Professor Ruggie highlights the operations of export credit agencies (ECAs) and explains that few ECAs explicitly consider human rights. He argues that “ECAs, representing not only commercial interests but also the broader public interest, should require clients to perform adequate due diligence on their potential human rights impacts. This would enable ECAs to flag up where serious human rights concerns would require greater oversight – and possibly indicate where State support should not proceed or continue.”

In a paper prepared to inform the SRSG’s mandate, the Halifax Initiative argues that states have an obligation, under international law, to ensure their ECAs undertake robust human rights due diligence. HI argues that the Government of Canada is failing to fulfill this obligation and provides recommendations to address this shortcoming.

Protect, Respect and Remedy: a Framework for Business and Human Rights
http://www.reports-and-materials.org/Ruggie-report-7-Apr-2008.pdf

Export Credit Agencies and the International Law of Human Rights
http://www.halifaxinitiative.org/updir/ECAs_and_HR_law.pdf

Notice Board – This month…

- On March 31, Finance Canada released their **Annual Report to Parliament on the Bretton Woods Institutions**. The 2007 Report **marks a substantial improvement** over previous years, providing a factual overview of both institutions, a review of 2007 events and Canadian positions on issues, and an all new medium term framework that articulates a more coherent and consistent government strategy for the institutions. As in past years, the **Halifax Initiative** (HI) **did a report card** on the annual report. With the Report finally identifying Canadian positions on issues, HI will shortly be doing a critique on some of the positions. http://www.halifaxinitiative.org/index.php/canada_and_the_ifis
- At the Spring meetings, **Bank President Bob Zoellick launched** a new **Extractive Industries Transparency Initiative** (EITI) **"++"** initiative. EITI calls for the full publication and verification of company payments for, and government revenues from, mining, oil, and gas. "EITI++" would expand this to include "the awarding of contracts, monitoring operations, collecting taxes, improving resource extraction and economic management decisions, better managing price volatility, and investing revenues effectively in sustainable development." http://www.cgdev.org/content/article/detail/15704/
- The **Dutch Cabinet** supported a proposal put forward by the country's socialist party to **end Dutch support for economic policy conditions** (on privatization, trade liberalization and spending cuts on health and education) **imposed on developing countries** by the World Bank. Both the UK and Norway have already banned the use of bilateral aid for programs that require trade liberalization and privatization.
- The **International Finance Corporation** approved **$450 million for** the **controversial Tata coal power plant in India**, arguing the plant will address the country's growing energy needs. Critics argue the region has huge unexplored solar power potential, that coal will have to be imported from Indonesia, and that costs for the plant are escalating.

New Publications

- "Turning the Tables: aid and accountability under the Paris Framework", Eurodad, April 2008. There has been piecemeal progress on implementing donor commitments to improve the quality of aid, particularly in terms of respecting principles of ownership and accountability. http://www.eurodad.org/aid/report.aspx?id=124&item=02166
- On climate change: "World Bank: Climate Profiteer", Sustainable Energy and Economy Network, April 2008. http://www.ips-dc.org/getfile.php?id=181 & "No Additionality, New Conditionality: A Critique of the World Bank's Proposed Climate Investment Funds", Third World Network, 31 March 2008. http://www.twnside.org.sg/20title2/climate/info.service/20080402/2-No.Additionality.New.Conditionality.Paper.doc
- "The Changing Face of Global Development Finance: Impacts and implications for aid, development, the South and the Bretton Woods Institutions – Final Report", April 2008, Halifax Initiative Coalition. http://www.halifaxinitiative.org/updir/FinalReport-ChangingFaceofGlobalDevelopmentFinance.pdf

Upcoming Events

- Improving implementation of IFC Performance Standards - Meeting of Equator Principle banks, export credit agencies and the IFC, Washington DC, May 7-9, 2008.

The new IMF quota deal – much ado about nothing?

As part of the IMF's 2005 Medium Term Review to rethink the institution's strategic direction in the context of a dynamically-changing global economy, then IMF Managing Director Rodrigo de Rato proposed a number of reforms to the Fund's arcane quota system (See JUST THE FACTS - Quotas, Votes and Voice at the IMF, August 31, 2006), ostensibly to give greater voice to emerging middle-income, as well as under-represented low income countries.

The package of reforms agreed at the 2006 Annual Meetings in Singapore consisted of five stages: a) an *ad hoc quota* increase for China, Korea, Mexico and Turkey (agreed in Singapore); b) an assessment and revision of the formula to determine quotas; c) a second round of quota increases based on the new formula; d) an increase to the vote of low-income countries through doubling the basic vote; and, finally e) the allocation of additional resources to the two Executive Directors (EDs) representing Africa.

At the 2008 Spring Meetings, the Board of Governors approved the remaining elements of the reform package. The final quota formula now uses four variables, weighted differently: i) 50 percent weight to a 40/60 blend of a) Gross Domestic Product (GDP) measured at purchasing power parity (PPP), a key demand of developing countries, and b) GDP weighted by market exchange rates; ii) 30 percent to trade openness, which the Group of 24 (G24) developing countries say is flawed because it is highly correlated with GDP and favours small rich countries with lots of trade; iii) 15 percent to variability, which measures the volatility of trade and investment flows; iv) 5 percent to international reserves. A small compression factor then slightly increases the quotas of the smallest countries and shrinks the quotas of the largest. The second round of *ad hoc* quota increases affects 54 countries, with the biggest shifts going to Korea, Singapore, Turkey, China, India, Brazil and Mexico. Basic votes jump from 250 to 750, but still only constitute 5.5 percent of the total vote – half of what they were in 1945. And the African EDs are allowed to appoint an additional alternate ED.

Proponents of the deal see the new "simple" formula as an important step forward in making the IMF's governance more reflective of the weight of its member countries, and in particular emerging economies, in the global economy. As current IMF Managing Director Strauss Khan put it, "the IMF is back!" Critics, however, argue that the formula makes only marginal changes to the vote and voice of developing countries (which increases by just 1.6 percent), fails to address existing governance imbalances (for example, the 27 countries of the European Union still hold eight seats on the Board Executive), and still falls desperately short of generating more balanced and inclusive representation and voting power.

Reform of IMF Quotas and Voice: Responding to Changes in the Global Economy
http://www.imf.org/external/np/exr/ib/2008/040108.htm

IMF governance: Fresh paint while the foundations rot
http://www.brettonwoodsproject.org/art-561041