

Issue update

Selected Issues on International Financial Institutions

Volume IV, Number 5 – May 30, 2008

NGOs applaud adoption of “better aid bill”

Two and a half years after it was first introduced, and after a tense year sitting in the Senate for its final reading, Bill C-293 or the “better aid bill” was finally unanimously approved in Parliament on May 9 to loud NGO approval. It now just needs royal assent to become law.

As is, the Bill mandates the government’s annual aid budget (\$4.4 bn in 08/09) to be used specifically for poverty reduction, and in a manner that is consistent with the principles of the Paris Declaration on Aid Effectiveness, sustainable development, democracy promotion and international human rights standards, among other things. It also sets out provisions for consultations with civil society every two years to provide input to the government on how Canadian aid is contributing to poverty reduction, takes into account the perspectives of the poor, and is consistent with international human rights standards. Finally, the Bill requires Foreign Affairs, Finance and the Canadian International Development Agency to produce an annual report detailing how Canadian aid money is being spent in accordance with the Act.

How the government will interpret the Bill is the next key step (see “Just The Facts”), and all three government departments are closely coordinating implementation plans, lawyers in tow. For the Bank and Fund, the Bill has numerous new reporting provisions on how the government engages with both these institutions. Much of this, however, is already covered in the government’s improved annual report to Parliament (See Notice Board, IU April 2008). Instead what is more interesting is how (and whether) the Bill will affect Canada’s approach to the Bank and the Fund - both of whom have come under heavy criticism internally and externally for undermining human rights and failing to alleviate poverty.

LEGISinfo, C-293, An Act respecting the provision of development assistance abroad, John McKay
<http://www.parl.gc.ca/LEGISINFO/index.asp?Language=E&Session=15&query=5091&List=toc>

Also in this issue:

EDC eyes Peru despite Ombudsman concerns

World Bank at fault for food crisis, critics charge

Notice Board, new publications and upcoming events

JUST THE FACTS: The Better Aid Bill - what it may mean for the IFIs



Halifax
INITIATIVE
d'Halifax

Our core funders are the C.S. Mott Foundation, the Wallace Global Fund, the International Development Research Centre, the Sigrid Rausing Trust and Coalition members.

Email subscriptions@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 eyes Peru despite Ombudsman concerns

With significant untapped mineral wealth and a permissive regulatory environment, Peru is an attractive investment destination for Canadian mining companies. Moreover, with a new bilateral free trade agreement anticipated to take effect in 2009 and unflaggingly high mineral prices, Canadian mining investment in Peru is poised to rise significantly. Export Development Canada (EDC), which provided the extractive sector with over \$22 billion in services in 2007, is gearing up to help Canadian mining investors take advantage of the bonanza.

Unfortunately, as in many other mineral-rich areas of the world, mining operations in Peru are the source of increasingly acute conflict. In April 2007, the country's National Ombudsman, an independent public office mandated to defend human rights, was asked by Congress to prepare an extraordinary report on this issue. The report confirms the gravity of mining-related conflict in Peru and identifies a number of its underlying causes: community concerns regarding environmental contamination, a lack of confidence in the state's ability to adequately regulate mining operations, the threat that mining poses to other economic pursuits including subsistence activities, unjust benefit distribution, and impacts on social structure and identity. The Ombudsman calls for a series of sweeping reforms to the regulatory system in Peru, including to citizen participation in public decision-making.

On May 22, EDC hosted a forum on socially responsible mining in Peru. The Halifax Initiative, along with CooperAccion and GRUFIDES, two Peruvian NGOs who provide support to communities affected by commercial mining operations in Peru, participated in the meeting. At the forum, all three emphasized that in the absence of reforms such as those identified by the Ombudsman, socially responsible mining in Peru will remain an illusion.

Report of the National Ombudsman of Peru (in Spanish)

http://www.defensoria.gob.pe/modules/Downloads/informes/extraordinarios/inf_extraordinario_04_07.pdf

World Bank at fault for food crisis, critics charge

As the UN special task force on the world food crisis met for the first time, the World Bank has come under attack from food security analysts, academics, and CSOs around the world for its role in setting the stage for the current crisis. Critics firstly blame the Bank's total neglect for the agricultural sector, which saw support for programs drop from \$1.9 billion in 1981 to less than \$1 billion by 2001. Critics also blame twenty years of structural adjustment policies. These required developing countries to rapidly liberalize trade barriers, cutting protective tariffs and exposing domestic producers to international competition, to abandon state marketing boards and grain reserves, and to cut public subsidies and incentives for farmers. Cheap imports replaced locally-produced food. Domestic industries collapsed. Agricultural production declined. How Bank President Bob Zoellick plans to address the root causes of the crisis remains to be seen. But to perhaps set the pace for the World Food Summit in Rome next week, Zoellick just announced \$1.2 billion in emergency loans to countries hurt by high food prices (for budget support, food programs or the supply of seeds and fertilizer), a 50% increase in Bank lending for agriculture from \$4 to \$6 billion, and a 'weather derivative' to help countries tackle rising food imports when crops fail due to drought or flooding.

Notice Board - This month...

- ☞ On April 30, **Export Development Canada** issued a **Statement on Human Rights**, a set of ‘principles’ to guide its consideration of the human rights impacts of its projects.
http://www.edc.ca/english/docs/news/2008/mediaroom_14502.htm
- ☞ **Leonard McCarthy**, the head of South Africa’s Corruption Investigation Unit, will **become the new Vice-President** of the World Bank’s **Department of Institutional Integrity (INT)**. INT investigates allegations of fraud and corruption in Bank Group operations and of staff misconduct. Elevating the position to Vice-President was one of the recommendations of the Volcker Commission, which conducted a review of INT in 2007. McCarthy replaces Suzanne Folsom, who left the Bank in January (See IU January 2008).
- ☞ The **IMF’s Chief Economist**, Simon Johnson, **is quitting**. While only in the position for just over a year, it was a turbulent one for financial markets and the Fund. The IMF first completely missed the credit crisis that broke out in August, and then six months later began calling for better regulatory mechanisms and an economic stimulus package to avoid a global recession. MIT economist **Olivier Blanchard will take over** in September.
- ☞ Prompted by negative reactions from students, trade unions, businessmen and civil servants, **Turkey, like Brazil, Argentina and Indonesia** before it, **has indicated it has no plans to return to the IMF** now that it has repaid its loans. Together the **four countries represented 60% of the Fund’s revenue** from interest payments. The news comes as 600 staff applied for a buyout to help cut \$100m from the **IMF’s dwindling budget**.
- ☞ The Special Advisor to the Secretary General on Innovative Financing (see IU March 31 2008) has negotiated a deal with two **major air-ticket wholesalers/reservation systems**, to **implement a voluntary donation to UNITAID on all ticket sales**.

New Publications this month

- “*Capital Flight Diverts Development Finance*”, Eurodad Fact Sheet.
http://www.eurodad.org/uploadedFiles/Whats_New/Reports/factsheet_capitalflight08.pdf
- “*Unfinished Business: Ten years of drop the debt*”, Jubilee Debt Campaign. At least another \$400 billion of debt cancellation is needed if the world’s poorest countries are to combat the challenge of global poverty. <http://www.jubileedebtcampaign.org.uk/unfinished>
- “*New Financiers and the Environment: Ten perspectives on how financial institutions can protect the environment*”, International Rivers.
<http://www.internationalrivers.org/en/node/2776>

Upcoming Events

- Export Development Canada just announced Town Hall meetings in May and June as part of their legislative review of the Export Development Act. See www.edcreview2008.ca
- “Does Aid Work? Can it work better? Crucial questions on the road to Accra and Doha”, organized by the North-South Institute, Crown Plaza Hotel, Ottawa, June 17-18.
- Financing for Development Hearings with Civil Society and Business, United Nations, New York, June 18.

The Better Aid Bill - what it may mean for the IFIs

Eligible institutions: Canada provides its aid through bi-lateral programs with various developing countries, and through multilateral institutions and initiatives. In terms of international financial institutions (IFIs), aid goes to three broad categories:

- 1) *concessional* (below market interest rates, long repayment terms) *and grant* -lending *windows* at the IFIs for the world's poorest countries, which donors periodically help to replenish. For example, the International Development Association of the World Bank and the African Development Fund at the African Development Bank.
- 2) *bi-lateral and multi-donor trust funds*, which are often issue and donor-interest specific, at the various institutions.
- 3) *global initiatives administered by the World Bank*, such as the Global Fund to fight Aids, TB and Malaria and the Global Environment Facility.

All the above are eligible under the Act. However, entities such as the World Bank Group's International Finance Corporation or the International Monetary Fund technically are not. Canada pays in capital as part of its quota or share in the institutions. But this is a non-budgetary expenditure, as it represents an asset -equity in the institutions. This may lead to some level of policy incoherence, since the Act has implications for only portions of the IFIs.

Interpreting the mandate and principles of the Bill, re the IFIs: Unless Finance Canada decides to simply dress their current medium-term strategy up in the principles and mandate of the Bill, C-293 may require them to do a more serious evaluation of the institutions and its implications for Canada's current priorities. This could help identify gaps in terms of where the IFIs and Canada's institutional strategy fall short relative to the Bill, and help reshape the existing strategy. Since CIDA has no institutional strategy for the Regional Development Banks (RDBs), they will have even more work to do.

Consultation: As the Bill only requires stakeholder consultations every two years, the various departments may simply "consult" groups through existing means (CIDA's Development Days, or Finance's annual consultation with civil society) or opt for more meaningful consultations that would help interpret the provisions, and the government's implementation, of the Bill.

Reporting: Finally, the Bill has very specific reporting requirements for the Bank and Fund (although not for the RDBs). This includes providing a summary of the government's annual report on the institutions and of any representation made by Canadian representatives on national priorities and policies, Canada's position on Board of Governor resolutions, and how Canada's activities at the institutions conform with the Act. With the exception of the last provision, the current annual report already does much of this. That said, the Bill does push current reporting further, and now makes these provisions legal requirements.

HI is currently preparing official comments to help guide implementation of Bill C-293.