

Issue update

Selected Issues on International Financial Institutions

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The Bank of the South: An Alternative to the IFIs?

In early June, the Bank of the South moved a step closer to becoming a reality as the Ministers of Finance of Venezuela, Argentina, Paraguay, Brazil, Ecuador and Bolivia met in Buenos Aires to discuss its founding constitution. In addition to functioning as a development bank and a source of stabilization funds, the Bank is seen as a precursor to a regional monetary system. Just as significant is the Bank of the South's role as an alternative to the World Bank and IMF, whose policies in Latin America have faced substantial regional criticism. In this respect, the Bank is seen as a valuable mechanism for re-asserting Latin America's economic independence and political sovereignty.

Recognizing the World Bank's and IMF's failure to promote sustainable development in Latin America and the growing crisis of credibility faced by these institutions, public advocacy groups - led by Jubilee South/Americas and supported by the Halifax Initiative - are coming together to support this bold initiative. These groups are encouraging the Bank's founders to make economic, social, cultural and environmental rights the founding principles of the institution.

Supporters argue that in order to avoid the failures of the World Bank and IMF, the Bank of the South must focus on issues of transparency, accountability and inclusion. Moreover, to overcome prevailing economic and social inequalities, and to promote real sustainable development, the Bank of the South will need to operate as the "People's" Bank. The constitution is set to be approved by the presidents of the founding countries at the end of June.

View the Jubilee South/Americas open letter to the founding country presidents
<http://www.eurodad.org/whatsnew/articles.aspx?id=1370>

The Bank of the South: A reflection of declining IFI relevance in Latin America
<http://www.bicusa.org/en/Article.3299.aspx>

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Canada at the G8: Waiting for a CSR Commitment

At the recent G8 Summit in Germany, leaders expressed concern that “in some cases, (...) extraction and processing of resources are associated with misuse of revenues, environmental destruction, armed conflict and state fragility”. As a result, the heads of state called for the development of a set of principles and guidelines - based on consensus by all affected stakeholders - that apply to the international mining sector in developing countries to ensure that the sector contributes to development.

In Canada, such consensus was recently reached through a national consultative process on corporate social responsibility (CSR) and Canadian extractive operations in developing countries (see March 31, 2007 Update). A key outcome of the roundtable process was the development of a Canadian CSR Framework, which includes a set of standards and accompanying guidelines that will improve extractive companies’ environmental, social and human rights performance.

At the G8 Summit, Prime Minister Stephen Harper affirmed that “implementation of the recommendations from this process will place Canada among the most active G8 countries in advancing international guidelines and principles on corporate social responsibility in this sector”. While The Canadian Network on Corporate Accountability was encouraged by this statement, its members await a firm timetable from the Canadian government regarding the formal adoption of the full set of roundtable recommendations.

View the CNCA statement on the Roundtable Advisory Group Report
<http://www.halifaxinitiative.org/updir/CNCASstatement-english.pdf>

U.S. and China Clash over IMF Exchange Rate Reform

On June 18, the IMF adopted the first revision to its exchange rate surveillance policy since 1977. The stated objective of the reform is to prevent the destabilizing effects of currency manipulations in emerging markets on world markets. China has opposed the reform, arguing that it is the true target of the new policy.

In recent years, the U.S. has grown increasingly impatient with China’s undervalued yuan and its impact on China’s growing trade surplus with the U.S. Yet China defends the slow rise of the yuan as a stabilizing measure that has facilitated its own market reforms and contributed to the rapid growth of the global economy. While some developing countries support China’s opposition to the policy, the developed world’s disproportionate voting power ensured the reform’s passage. This extension of the IMF’s monitoring and enforcement role, and thus its global influence, closely matches the U.S. vision for the institution.

There is some concern that if China feels unfairly pressured, it may turn away from the IMF and pursue the development of regional alternatives. Ultimately, the perception that the IMF is being used by the U.S. to achieve its own bilateral goals, a former IMF official explains, may not only erode the legitimacy of the institution, but also the entire multilateral approach to managing China’s growth and its impact on the global economy.

Landmark Framework for IMF Surveillance - IMF Survey Magazine
<http://www.imf.org/external/pubs/ft/survey/so/2007/POL0621B.htm>

US-China Currency Spat Bruises IMF - Financial Times, June 25th
<http://www.worldbank.org/hnp>

Notice Board

- ☞ On May 30, the **Spanish Parliament** approved a motion to enhance **accountability mechanisms** regarding government actions at the **IMF and World Bank**. The government is obliged to prepare an annual report and attend a parliamentary hearing on its activities. It must also exercise greater transparency with regards to its allocation of financial resources to the Bank and the Fund.
- ☞ On June 13, **Export Development Canada** posted information on its web site about the latest Category A project that it is considering supporting. A consortium including Canada's Tenke Mining Corp. and U.S. company Phelps Dodge is proposing to develop the Tenke Fungurume copper mine in the Democratic Republic of Congo. The contract for this project is currently being reviewed by the Congolese government, in response to calls from national and international observers, including the World Bank, to address **serious concerns** regarding both the **terms of the contract and the manner in which it was negotiated**.
- ☞ On June 28, **Rodrigo de Rato unexpectedly announced his decision to step down** as the managing director of the IMF. Only days before, the board of directors approved significant reforms regarding the Fund's exchange rate surveillance mandate. Mr. de Rato's departure has renewed calls for the Fund's adoption of a **merit-based and transparent selection process** for his successor - an opportunity recently missed at the World Bank following the resignation of its president, Paul Wolfowitz.
- ☞ China's Three Gorges Dam Corporation is currently pursuing an even more **ambitious hydroelectricity project in the Democratic Republic of Congo**. The generating capacity of the proposed "Grand Inga scheme" will exceed that of the Three Gorges and Itaipu (Brazil) dams combined. Although planners claim the project will not require **large-scale resettlement**, African sources report that 8,000 people were recently moved with no compensation or assistance to make way for the next preparatory stage.
- ☞ David Emerson, Canada's Minister of International Trade, announced the appointment of **Jim Dinning** as the new **Chairman of the Board of Directors of Export Development Canada**.

New Publications

- In late June, donors met in Mozambique to discuss the terms of the 15th replenishment of the International Development Association - the grant facility of the World Bank for the world's poorest countries (see Issue Update March 31, 2007). Fragile states and aid architecture were on the agenda. For further details and the Halifax Initiative's position on the replenishment, see:
"Issue Brief: 15th Replenishment of the International Development Association - June 2007"
http://www.halifaxinitiative.org/index.php/worldbank_factsheets/1000
and "Policy Brief: Halifax Initiative Position on IDA 15"
http://www.halifaxinitiative.org/index.php/worldbank_factsheets/1001
- Letter to Eric Siegel, President and CEO of EDC, co-signed by Entraide missionnaire, concerns a multi-stakeholder workshop hosted by EDC and CIDA on support for Canadian mining operations in the Democratic Republic of the Congo.
http://www.halifaxinitiative.org/index.php/edceca_correspond/996

Upcoming Events

On the 10th anniversary of the Asian Financial Crisis, two complimentary conferences are taking place in Bangkok to examine the impact of the crisis and lessons learned.

- "A Decade After: Recovery and Adjustment since the East Asian Crisis", organised by IDEAS, July 12-14.
www.networkideas.org/events/jun2007/ea14_Bangkok_Conference.htm
- July 15-17 "Sink it or Shrink it - alternative to the current model of development", organized by Focus on the Global South, Eurodad, Gender Action and Jubilee South APMDD.
<http://www.if-watchnet.org/?q=en/node/2812>

Bank of the South vs. Bretton Woods

Venezuelan President Hugo Chavez first mentioned his idea for a Bank of the South in early 2006. The Bank was originally discussed with heads of state from Africa and India, but later refocused exclusively on South America. Since that time, many South American governments have distanced themselves from the World Bank, IMF and the Inter-American Development Bank, and have gravitated towards the idea of greater regional economic integration.

Although the Bank's constitution has yet to be finalized, suggested differences between the Bretton Woods institutions and the Bank of the South include the latter's mandate to apply international human rights treaties (including social and cultural rights), to source lending capital exclusively from member countries and to provide equal voting power to all members, irrespective of their financial or political power. In stark contrast to the World Bank and IMF, proponents of the Bank of the South have gone so far as to suggest that those countries in greatest need of development financing should exercise enhanced voting rights at the board.

However, supporters argue that in order to truly distance itself from the World Bank and IMF, the Bank of the South will need to ensure that success is based on tangible results, not lending volumes. In this respect, the constitution's inclusion of a clear statement on how the Bank defines development will be key to assessing the Bank's effectiveness over the long run.

The Bank of the South Becoming Reality

http://www.cadtm.org/imprimer.php3?id_article=2656

The Southern Bank, Between Economics and Politics

<http://ifis.choike.org/informes/598.html>