

Issue update

Selected Issues on International Financial Institutions

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Selecting a New IMF Director: Another One-Man Race?

Following the recent, controversial appointment of World Bank President Robert Zoellick - who was hand-picked by the US, despite calls for a more democratic selection process - all eyes are on the International Monetary Fund as it prepares to select a new Managing Director in September. At this early stage, US and EU support for the candidacy of former French Finance Minister Dominique Strauss-Kahn reveals their intent to preserve a selection process that all but guarantees the appointment of a European to the top post.

Europe's resolve was further demonstrated by its coordinated rejection of a developing country proposal, led by Egypt, to create an executive search committee to solicit other candidates. However, in a rare display of dissent among EU members, the UK has withheld its full support for Strauss-Kahn. In addition, a coalition of developing countries, in partnership with the UK, overcame French resistance to the creation of a candidate profile, the adoption of a longer timetable for the nomination process, and new language affirming the eligibility of candidates from any member country.

Despite these procedural reforms, developing countries can do little to challenge the convention that a European head the institution as long as the US and EU hold 53% of the voting power on the Executive Board. These developments further demonstrate that in order to reverse the Fund's growing crisis of legitimacy and declining relevance in the developing world, reforms must address the current imbalance of decision-making power. See "Just the Facts" for information on the Canadian proposal to amend the IMF voting structure.

IMF Board Debates Selection of its New Chief

<http://www.twinside.org.sg/title2/finance/twninfofinance070706.htm>

Who is Dominique Strauss-Kahn?

<http://www.ft.com/cms/s/ad7dd160-31a2-11dc-891f-0000779fd2ac.html>

Also in this issue:

Harper Defends Barrick Gold in Chile

EDC Signals Interest in Congolese Mine Despite Government Contract Review

Notice Board, new publications and upcoming events

JUST THE FACTS: Canada's Proposal to Redistribute Voting Power at the IMF



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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

Harper Defends Barrick Gold in Chile

During his recent visit to Latin America, Canadian Prime Minister Stephen Harper drew attention to the gap between rhetoric and reality when it comes to corporate social responsibility in Canada's international mining sector. As protestors critical of the environmental and social impact of Barrick Gold's Pascua Lama mining project assembled outside the Canadian company's Santiago office, Harper defended the project, asserting that it follows "Canadian standards of corporate social responsibility".

Unfortunately, no such standards exist. However, in 2006, the Canadian government launched a major consultation on corporate social responsibility and mining companies in developing countries. The result was an unprecedented consensus among industry, labour, civil society and academics on the need for Canadian corporate accountability rules that include clear standards for companies in areas such as the environment and human rights.

The final report was submitted to the government in March, 2007. Prime Minister Harper should respond by adopting the proposed standards of corporate social responsibility. Once these standards are in place, Harper's defense of Canadian mining companies will have greater legitimacy.

Gold Mine Controversy Awaits PM in Santiago

<http://www.thestar.com/article/237098>

Final report of the roundtables on corporate social responsibility and the Canadian extractive industry

<http://geo.international.gc.ca/cip-pic/library/Advisory%20Group%20Report%20-%20March%202007.pdf>

EDC Signals Interest in Congolese Mine Despite Government Contract Review

Export Development Canada (EDC), along with public lenders in the US and Europe, has signaled its interest in supporting the Tenke Fungurume copper mine in the Democratic Republic of Congo, despite the fact that the contract for the project is currently under review by the Congolese government.




The review process responds to concerns raised in various audits, independent studies and a parliamentary commission report regarding the fairness and legality of numerous mining contracts. Although the review could lead to the cancellation or substantial revision of contracts, public lenders, including EDC, are forging ahead with plans to invest hundreds of millions of dollars in the Tenke Fungurume project.

By signaling their interest in the project before the review is complete, these public financial institutions appear to be prejudging the outcome of the process and sending a message to the Congolese government about the expected results. Civil society groups have argued that the process should be allowed to proceed unhindered by such outside influences and in full transparency.

Read the official press release

http://www.halifaxinitiative.org/index.php/issues_projects/1006

Notice Board

-  3 employees of Canadian company Anvil Mining, including one Canadian national, were acquitted on charges of complicity in war crimes in relation to the 2004 deaths of at least 73 civilians in Kilwa, DRC. The prosecution marked the first time in Congolese history that foreign employees of a multinational company were charged with such a serious crime. Citing obstruction, irregularities, and political interference, NGO observers claim that the trial failed to conform to international legal standards.
http://www.halifaxinitiative.org/index.php/issues_projects/1007
-  Disagreements between Venezuela and Brazil took the spotlight during July negotiations on the Bank of the South. Analysts argue that Brazil's efforts to situate Bank HQ outside Venezuela, to reduce initial start-up capital, and to limit Bank membership to South American states are part of a strategy to limit Venezuela's influence over the institution.
-  On July 12th, 9 of the 24 Executive Directors of the World Bank criticized the institution over its recently published annual worldwide governance indicators. Directors representing China, Russia, Mexico, and Argentina - among other developing countries questioning the selection of the indicators - wrote to new President Robert Zoellick challenging whether the Bank should produce this type of analysis.
<http://www.ft.com/cms/s/c6e0ca62-3090-11dc-9a81-0000779fd2ac.html>

New Publications

- “Does the IMF Constrain Health Spending in Poor Countries? Evidence and an Agenda for Action”, Centre for Global Development, July 2007. This report argues that although the IMF does not explicitly set public spending priorities for developing countries, its focus on macroeconomic stabilization indirectly affects how much aid can be invested in public services. Often, these services are unnecessarily under-funded due to the excessively risk averse and inflexible nature of the Fund's macroeconomic policies. Consequently, the negative effects of an under-resourced health sector may outweigh any benefits achieved through the IMF's approach to macroeconomic stability.
<http://www.cgdev.org/content/publications/detail/14103/>
- “Legitimacy Dilemmas: The IMF's Pursuit of Country Ownership”, Third World Quarterly 28:3, 2007. This paper argues that the IMF's efforts to increase its political legitimacy in the developing world are continually undermined by an institutional dependence on expert-based solutions to local problems and the continued promotion of narrowly technical economic strategies. A draft version of this paper can be found at:
<http://aix1.uottawa.ca/~jbest/Publications.html>

Upcoming Events

- “*Pathways to Legitimacy: The Future of Global and Regional Governance*”. Warwick, UK, September 17-19, 2007.
<http://www2.warwick.ac.uk/fac/soc/csg/activitiesnews/conferences/conference2007/>

Canada's Proposal to Redistribute Voting Power at the IMF

At the IMF's Annual Meetings in September 2006, the Board of Governors agreed to implement a package of institutional reforms, over two years, to increase the influence of emerging markets within the Fund, to enhance the voice of less-developed countries, and to better reflect a changing global economic landscape. Central to these reforms is the development of a new formula for increasing the voting power of under-represented countries.

Following the meetings, the Executive Board agreed to increase the quotas (assigned monetary contributions that determine relative voting power) of China, Korea, Mexico, and Turkey as they were deemed to be the most under-represented Fund members. A second quota increase was planned in order to increase the relative voting power of other under-represented countries. However, this increase rests upon agreement over the new quota formula - a process that is currently stalled.

Canada submitted a proposal to the Board of Governors on July 23, 2007 that aims to break the deadlock before the Annual Meetings in October. According to media reports, the proposal would reward dynamic, emerging markets that have made significant contributions to world economic growth in recent years, in purchasing power parity terms. The formula would increase the quota share of 14 countries that have contributed more than 0.5 percent to global growth since 2000. These countries include China, Germany, Greece, Italy, Japan, South Korea, Malaysia, Mexico, Spain, Thailand, Turkey, and Vietnam.

Canada's proposed formula would see the relative voting share of emerging economies increase, that of advanced economies decrease, and the share of less-developed countries increase slightly. However, because the proposal has not been released to the public, its details remain unclear. This withholding of information does little to reduce criticisms regarding the lack of transparency at the IMF. The proposal was due to be discussed at the IMF Executive Board meeting on July 25th.

An Issue Brief on the Evolution of IMF Quotas

<http://imf.org/np/exr/ib/2007/041307.pdf>

African Finance Ministers Express their Views on Voting Reform

<http://allafrica.com/stories/200707301209.html>