

Issue update

Selected Issues on International Financial Institutions

Volume VI, Number 7 – August 31, 2010

Financial Transaction Tax feasible, says report

The Leading Group for Innovative Financing for Development, an inter-governmental organization gathering 55 member states, released a report on 16 July announcing the feasibility of taxing financial transactions. The report, commissioned by 12 of the group's member states, was conducted by a team of international financial experts and focuses on foreign exchange transactions. The report finds that as currency transactions between banks are processed via high-security international systems, which collect a per transaction fee on interbank exchange, it would be relatively easy to implement a foreign exchange tax into the system. The report calculates that introducing a small tax of 0.005% would generate USD\$33 billion per year, which could be used to finance development activities such as poverty reduction and sustainable development.

A foreign exchange tax, or Tobin Tax (see JUST THE FACTS), is just one of the many possible financial transaction taxes supported by the Halifax Initiative. The Halifax Initiative welcomes the report and calls on the government to introduce this tax as a first step in implementing a general international financial transaction tax. It also calls for further discussion on the issue at the next G20 in Seoul, South Korea in November.

* The report was commissioned by the governments of Germany, UK, Japan, France, Belgium, Korea, Norway, Senegal, Brazil, Spain, Austria and Chile.

Read the report: The Leading Group Report: Globalizing Solidarity: the Case for Financial Levies:
http://www.leadinggroup.org/IMG/pdf_Financement_innovants_web_def.pdf

Read more about this on page 4: Just the Facts: Robin or Tobin? Financial Transaction Taxes explained!

Also in this issue:

EDC asked to fund Controversial mine

IMF cancels debt for Haiti

Notice Board, new publications and upcoming events

JUST THE FACTS: Robin or Tobin? Financial Transaction Taxes explained



Halifax
INITIATIVE
d'Halifax

Our core funders are the C.S. Mott Foundation, 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 asked to fund controversial mine

Ivanhoe Minerals announced in July that it has applied to Export Development Canada to fund its Oyu Tolgoi mine in Mongolia. EDC and a number of other public and private financial institutions have been asked to provide the mining company with more than US\$2 billion in finance. This information was made public by the company; EDC is not required to disclose information about funding requests for 'Category A' projects (which frequently include mines) until a minimum of 30 calendar days prior to a decision. In April, Mongolian NGOs filed a complaint with the National Contact Point at DFAIT for alleged breaches of the OECD Guidelines for Multinational Companies. Mongolian civil society also appealed to the U.N. Special Representative on business and human rights, John Ruggie, to intervene in the case.

CSOs have identified a number of alleged irregularities associated with the project. They cite the absence of a full environmental impact assessment and a detailed water study. They further allege that the 2010 investment agreement for the project was approved by the government without the prior consent of the Mongolian Parliament. The project is to be located in South Gobi Desert. Mongolian civil society is concerned that mining activity will reduce both the quality and availability of water, threaten wildlife and reduce available pasture land, which is the basis of the traditional nomadic livelihood.

OECD complaint:

<http://www.miningwatch.ca/en/oecd-complaint-filed-against-rio-tinto-and-ivanhoe-mines-mongolia>

IMF cancels debt for Haiti

On 21 July the International Monetary Fund (IMF) announced the full cancellation of Haiti's outstanding debt to the institution. The IMF, which is Haiti's largest creditor, will forgive US\$268 million in debt. The Fund also approved a new, three-year arrangement for Haiti under the Extended Credit Facility (ECF) to support the country's reconstruction and growth program. This US\$60 million, low-interest loan is aimed at allowing Haiti to prevent exchange rate fluctuations as a result of inflows of foreign aid to the country. The measure was deemed necessary by the IMF, despite the fact that aid transfers have fallen far short of commitments. The loan will not finance reconstruction efforts but will 'go into reserves to help the Central Bank manage the volatility that could be associated with a large disbursement of aid inflows.'

According to the IMF, the new program provides a framework to 'support economic stability and reconstruction in the country'. The program will impose macro economic conditions on Haiti, while establishing a technical assistance program to foster private investment and credit. This will focus Haiti's recovery on the development of its tourism industry and low cost textile jobs. The provision of new condition based loans, instead of aid, could signal more unsustainable debt for the struggling country in the future and stringent conditions on Haiti's people as they try to rebuild their lives.

Notice Board - This month...

- 📄 Elizabeth Niland has replaced Fraser Reilly King as Coordinator of the Halifax Initiative until December 2010, while Fraser takes parental leave. Elizabeth can be contacted on eniland@halifaxinitiative.org
- 📄 Prior to the G20 meeting in Toronto in June, the Halifax Initiative, with a number of national, regional and international networks organized a meeting entitled, “The Bridge to South Korea: Global Civil Society G20 Meeting”. It was an attempt to bring together organizations from various G20 countries and beyond to begin to discuss perspectives on the G20 and the issues it is addressing. The final report of the meeting is now available in English, French and Spanish on the Halifax Initiative website. <http://halifaxinitiative.org/sites/default/files/Final%20Report%20-%20Bridge%20to%20South%20Korea.pdf>
- 📄 HI published an article titled "Canadian Mining: Still Unaccountable" in the May/June edition of the magazine *Report on the Americas*, published by the North American Congress on Latin America (NACLA). The article describes the role of Canadian government actors in facilitating Canadian mining investment in Latin America. It includes information regarding recent policy and law reform efforts in Canada to promote greater accountability regarding the overseas activities of Canadian extractive companies. www.nacla.org/files/A043030031_8.pdf
- 📄 The International Finance Corporation is currently reviewing the Performance Standards, the agency's environmental and social safeguard policies, which are applied by a number of international financial institutions, including Export Development Canada. Draft revisions have been publicly disseminated and numerous CSOs have provided the IFC with input. See, for example, submissions by the Indian Law Resource Center (<http://ilrc.xinsys.net/sites/default/files/2010-07-29%20Center%27s%20IFC%20Comments%20ENG.pdf>) and International Rivers (http://www.internationalrivers.org/files/Intl%20Rivers_IFC%20PS%20comments_final.pdf).
- 📄 The Oxford Poverty and Human Development Initiative (OPHI) and the Human Development Report Office of the United Nations Development Programme (UNDP) launched a new poverty measure that gives a “multidimensional” picture of people living in poverty aimed at targeting development resources more effectively. Learn more: <http://www.ophi.org.uk/policy/multidimensional-poverty-index/>
- 📄 The Robin Hood Tax campaign is running a film making competition, to be judged by writer and director Richard Curtis and actress Sienna Miller, to encourage activists to make creative, original 60-90 second films about the Robin Hood Tax. For more information: www.robinhoodtax.org/competition
- 📄 Marie-Dominik Langois has been appointed as the new Coordinator of the Canadian Network on Corporate Accountability. She can be reached at coordinator@cnca-rcrce.ca.

New Publications this month

- Halifax Initiative: Bridge to South Korea Global Civil Society G20 Meeting: Final Report: <http://halifaxinitiative.org/sites/default/files/Final%20Report%20-%20Bridge%20to%20South%20Korea.pdf>
- RESULTS Report: World Bank Financing for Education: less or more for the poor in IDA 16? <http://www.results.org/uploads/files/EFA%20Report.pdf>

Robin or Tobin? Financial Transaction Taxes explained

Confused about the terminology surrounding Financial Transaction Taxes? Here we explain the most common taxes and initiatives being discussed.

- **Financial Transaction Tax (FTT) *aka* Robin Hood Tax** - a proposed global tax that would be levied on all financial market transactions - including bonds, equities and derivatives, in addition to foreign exchange. It would be based on the gross value of the assets, thereby helping to discourage the creation of asset bubbles (over inflated asset prices due to excess demand). Unlike a currency transaction tax, which would impose a 0.005 per cent levy on currency transactions in major economies, an FTT would impose a 0.05 to 1.0 percent levy on financial transactions. It is thought that this rate is sufficiently high to dissuade some speculative financial trading. While estimates for how much revenue an FTT would yield exist, there is considerable uncertainty as to the impact of an FTT on the market and speculative activity. Civil society organizations are calling for 50 percent of the funds generated from such a tax be used to achieve the Millennium Development Goals, as well as climate change mitigation and adaptation in developing countries.
- **Foreign Exchange Tax *aka* Tobin Tax** - a proposal by Nobel-prize winning economist James Tobin to place a small tax (0.1 - 0.5%) on all foreign exchange transactions as a means of stabilizing currency markets. When proposed, the tax was not envisioned to fund development goals, but purely to stabilize markets.
- **Financial Activities Tax (FAT) *aka* Bank Tax** - a tax on the profits and remuneration of banks (e.g. executive pay, bonuses). It is equivalent to a value added tax for the financial sector, and was proposed by the IMF in response to a request at the September 2009 G20 Pittsburgh summit that the IMF review “the range of options countries have adopted or are considering as to how the financial sector could make a fair and substantial contribution toward paying for any burdens associated with government interventions to repair the banking system.”