Issue update
Selected Issues on International Financial Institutions

Volume IV, Number 8 — August 31, 2008

Déja vu on preferred options for Bank governance reform

Despite internal and external criticism about the superficial nature of governance reforms recently concluded at the IMF (see IU April and June 2008), the World Bank looks set to follow suit at the October Annual meetings with a series of disappointing proposals for increasing the voice of developing and transition countries (DTC) at the Bank.

A confidential June discussion paper does lay out a number of encouraging options. These include the following: increasing DTC voting power at the Bank by returning basic votes to the original 10.78% level (up from 2.86% today); changing the required majority for Bank decisions to either a double majority system (percentage of members and of votes) or to voting by individual member countries rather than by constituency blocks; realigning IBRD shares from economic weight to a 50/50 parity split between DTC and developed countries; and strengthening board representation by adding two more African Executive Directors (EDs), additional Alternate EDs and/or advisers, or rotating Board seats among constituencies.

But instead Bank EDs –with objections from many DTCs – seem to be coalescing around a minimalist package not dissimilar to what the IMF adopted back in April. This could include tripling the basic vote, maintaining economic weight (rather than parity) as the determinant for realigning IBRD shares, setting up a Trust Fund to allow DTCs to buy up their allocated subscriptions in IDA (although there is little incentive to do so since this has no bearing on how much countries can borrow) and adding an extra African ED. The Bank's majority decision-making process, with its veto for the US, will likely go unchanged. With the Bank's legitimacy still under scrutiny, many of its Board members seem to be asleep at the wheel.

Global letter on World Bank governance reform
http://www.halifaxinitiative.org/index.php/wbg_correspond/1107

Also in this issue:
World Bank standards fail to protect human rights
Ruggie urged to address IFIs and human rights
Notice Board, new publications and upcoming events
JUST THE FACTS: IFC Performance Standards: mainstreaming mediocrity

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

World Bank standards fail to protect human rights

A new NGO report reveals that neither the International Finance Corporation’s Performance Standards nor the Equator Principles "provide project sponsors with a robust framework for meeting their responsibility to respect or remedy human rights." The study was prepared by the Center for International Environmental Law, Bank Information Center, BankTrack, Oxfam Australia and World Resources Institute to inform the mandate of the UN Secretary-General's Special Representative on business and human rights.

The study applies the Human Rights Compliance Assessment tool (HRCA) developed by the Danish Institute for Human Rights. It reveals that the Performance Standards / Equator Principles are fully compliant with just 2 of the 335 questions in the HRCA “full check.” The authors argue that the Performance Standards (see “JUST THE FACTS”) and Equator Principles require significant amendment in order to provide project sponsors with appropriate guidance for meeting their human rights responsibilities. They encourage the Special Representative to address this issue during his extended mandate.

The International Finance Corporation’s Performance Standards and the Equator Principles: Respecting Human Rights and Remedying Violations?
http://www.ciel.org/Ifi/IFC_Framework_7Aug08.html

Ruggie urged to address IFIs and human rights

Earlier this year, at the conclusion of his three-year mandate, John Ruggie, the UN Secretary-General’s Special Representative on business and human rights, presented a policy framework to address the human rights impacts associated with commercial operations (see IU April 2008). The UN Human Rights Council welcomed the framework (state duty to protect, corporate responsibility to respect and the need for more effective access to remedies) and extended Mr. Ruggie’s mandate for an additional three years.

In a submission to the Special Representative, the Canadian Network on Corporate Accountability (CNCA) urges Mr. Ruggie to focus attention on the role of the international financial institutions in promoting the full realization of human rights in the business context, an issue that he has not yet prioritized. International financial institutions often support high-risk projects with the potential to generate serious human rights impacts, frequently in areas of conflict and/or weak governance. Moreover, the International Finance Corporation (IFC) has positioned itself as the *de facto* source of international corporate social responsibility standards for project finance. The CNCA encourages the Special Representative to turn his attention to the IFIs, which are key actors in the development and application of the policy framework he identified.

CNCA Submission to the UN Secretary-General’s Special Representative on Business and Human Rights
http://www.halifaxinitiative.org/updir/CNCA_statement_re_Ruggie_report-July_08.pdf

Notice Board – This month…

- The International Centre for the Settlement of Investment Disputes (**ICSID** – see JUST THE FACTS Nov 2007) **ruled in favour of** the Government of **Tanzania on a** case brought to it by British water utility company Biwater. The government cancelled the **water privatization project** in 2005, citing failure by the company to meet agreed performance targets. While ICSID did agree that the company's investor rights had been breached, it did not award any compensation (Biwater was seeking $20 million) as it agreed with the government that Biwater had failed to deliver on the terms of the contract. Privatization of the state run water utility was an unwelcome condition of IMF and World Bank loans.
- The **International Finance Corporation** (IFC) bought a **$50 million equity stake** in **Nitol**, a Russian **company** that **produces** about 9 percent of the world's **polysilicon**, **a key ingredient in** the manufacture of **solar cells**. The IFC also provided a $25 million loan to the company for a new facility in Siberia, which is expected to increase global supplies of the substance and reduce the cost of solar panels.
- US Congresswoman Maxine Waters introduced a **bill** (see IU April 30, 2008) that would **make it illegal for vulture funds to sue poor countries in US courts**. The practice of vulture funds came to light in 2006 when Donegal bought US$40 million worth of Zambia's debt from Romania for just US$3.2 million and then sued Zambia in a British court for US$55 million. See http://www.halifaxinitiative.org/updir/PolicyBriefingPaper12ZambiaENwithlogo.pdf
- The World Bank's **Inspection Panel** found **serious flaws** in the 680 km **West African Gas Pipeline** (WAGP), a $500 m project that transports gas to from Nigeria to Benin, Togo and Ghana. Among other things, the Panel found that **displaced residents** were **severely undercompensated** for their land and that Bank involvement failed to reduce the pollution, heat, noise and light impacts of **gas flaring** from the project that had been promised. The Panel also criticized the Bank's **failure to assess the impact of the WAGP on residents of the Niger Delta**, the source of the gas. The Board approved action plan will seek to address resettlement and compensation issues, create an effective grievance mechanism, and enhance disclosure of information and project monitoring.

New Publications this month

- *"Roundtable on Conceptual and Operational Issues of Lender Responsibility for Sovereign Debt"*, Eurodad/World Bank, July 2008. Covers the key debates, definitions, country experiences and proposals for ensuring future responsible lending and borrowing practices. http://www.eurodad.org/uploadedFiles/Whats_New/Reports/Odious_Debt_Roundtable_Report_FINAL_July_17_08.pdf.
- *"The International Development System: Southern Perspectives on Reform"*, The North-South Institute, 2008. The report covers issues related to country ownership, policy coherence, legitimacy and overall aid effectiveness. http://www.nsi-ins.ca/english/research/progress/41.asp

Upcoming Events

- Third High-Level Forum on Aid Effectiveness, Accra, Ghana, September 2-4.

JUST THE FACTS

IFC Performance Standards: mainstreaming mediocrity

The International Finance Corporation (IFC) is the private sector lending arm of the World Bank Group. In 2006, the IFC substantially revised its social and environmental policies, adopting the Performance Standards (PSs). The policy review responded, in part, to criticisms from the World Bank's Compliance Advisor Ombudsman (CAO) that the IFC supported companies with negligible commitments to environmental and social responsibility, and failed to invest in projects that reduce poverty and promote sustainable development.

Since their adoption, the PSs have become the international measuring stick to assess the environmental and social performance of multinational companies. They apply to the private sector clients of the International Finance Corporation[1] and form the basis of Multilateral Investment Guarantee Agency (MIGA) standards.[2] The PSs were also adopted in 2007 by members of the Organisation for Economic Co-operation and Development (OECD) for application by their export credit agencies.[3] Moreover, the Performance Standards are utilized by over sixty private banks in the form of the Equator Principles.[4] Finally, the Performance Standards are under consideration as the basis for domestic policy on corporate accountability in Canada. The Advisory Group to the *National Roundtables on Corporate Social Responsibility (CSR) and the Canadian Extractive Industry in Developing Countries* recommended that the PSs constitute one element of the "Canadian CSR Standards."

While the Performance Standards include improvements over previous World Bank standards, they also raise a number of serious concerns. The Standards represent a shift towards a more flexible system that relies heavily on the discretion of clients and individual decision-makers at the IFC. A significant degree of leeway is permitted in their application, and non-compliance is tolerated as long as clients continue to improve their performance. The PSs increase reliance on client-generated information and on self-monitoring by the private sector. Moreover, the Standards do little to address the CAO's finding that the IFC has failed to select projects that meet its goal of poverty alleviation.

For these reasons, and because the Standards are not protective of most internationally-recognized human rights, the Advisory Group to the Canadian Roundtables called for the development of Canadian Guidance Notes to address the Standards' numerous shortcomings.

Halifax Initiative analysis of the IFC Performance Standards: One Step Forward, One Step Back
http://www.halifaxinitiative.org/index.php/World_Bank_Reports/683

[1] In FY07, the IFC invested over US$8 billion.
[2] In FY07, MIGA issued US$1.9 billion in guarantees.
[3] In 2005, ECAs in OECD member nations provided services valued at US$125 billion.
[4] In 2007, the Equator Principles were applied to over US$52.9 billion in project finance.